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| **Folder Title:** | VPD - Director, Development Policy - McNamara File - September - October 1974 - Folder 6 |
| **Folder ID:** | 30124194 |
| **Series:** | Director, Development Policy Ernest Stern's Correspondence with President McNamara |
| **Dates:** | 09/09/1974 - 10/25/1974 |
| **Subfonds:** | Records of the Office of the Vice President, Development Policy (VPD) and the Development Policy Staff |
| **Fonds:** | Records of the Office of the Chief Economist |
| **ISAD Reference Code:** | WB IBRD/IDA DEC-01-06 |
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VPD Director, Development Policy

~~Development Policy~~,
McNamara file Sept. - Oct. 1974

Folder 6

me ~~Stern~~

819/6/27 oil

Mr. Robert S. McNamara | October 25, 1974

Wouter Tims



Middle East Oil Prices

1. Prior to the OPEC meeting of September, Iran is understood to have reversed its position and to oppose further increases in the real price of Middle Eastern oil. It would reportedly like to see the present two-tier export price system ended. It is reported to be seeking a single price for all Persian Gulf crude oils, adjusted for location and quality, that would be no greater than the weighted average government revenue from the combined mix of equity and participation crude oils ($9.40-9.50 per barrel during the third quarter 1974) plus a profit margin (40-50 cents per barrel) to oil companies for services rendered. Thus, the "right" price would in its view be about $9.90-$10.00 per barrel. This price would not be increased in the foreseeable future except to reflect inflation.

2. For 1974 the weighted average export price of the indicator oil (Saudi Arabian Light) now looks like $9.75 per barrel f.o.b. Ras Tanura, compared with our estimate hitherto of $9.60. Its average price in the fourth quarter has risen to about $10.25 per barrel, reflecting increases in royalty and tax rates.

3. I now believe it unlikely that the 1975 price could decline to $9.60 in 1975-$, (i.e. $8.65 in 1974-$) as we had forecast. A price of $10.70 per barrel in 1975-$ seems more likely, i.e. maintenance of the 1974 price of $9.60 in current prices. This is in line with indications in the Christian Science article of October 21 that Saudi Arabia apparently favours a price of $10.75 (including service fee of 50 cents) for the first quarter of 1975 and Iran $10.34 (adjusted for the service fee). This would have important implications for projected OPEC revenues and LDC deficits. The former would be $11 billion higher than projected in R-477 and the LDC deficit would be $15 billion higher.

cc. Mr. Chenery

WTims:fm

McN.

819/6/26

Mr. Robert S. McNamara, President October 25, 1974

Hollis B. Chenery, VP, Development Policy

The Recycling of Petro-Dollars



Attached is the short note on recycling which you requested for Mr. Waldheim. It advocates no particular measures since you wanted a general description of the problem and the possible policies which should be pursued.

Attachment

EStern/ls

bcc: ~~Messrs.~~ Mr. Stern

cc and cleared with: Messrs. Tims
Waelbroeck

## THE RECYCLING OF PETRO-DOLLARS



### The Problem

1. The "recycling of petro-dollars" is the appropriate investment of the surpluses of the oil exporting countries. To the oil exporting countries, appropriate means secure investments, with a reasonable rate of return; from the viewpoint of the rest of the world, appropriate means the investment of the revenue surpluses of the oil exporters in countries in proportion to their oil deficits. One problem is that the larger a country's deficit, the less attractive it is as a secure investment. A second problem is that a recycling mechanism on commercial terms will not be of significant assistance to most of the lower income countries which are not creditworthy for large amounts of commercial capital. They face mounting foreign exchange problems which were exacerbated by the oil price increases but go far beyond them.

2. In strictly economic terms the recycling of the revenue surpluses is not a significant problem for the industrialized countries. The amounts, though large in absolute terms, are only a small proportion of their wealth, no matter how that is measured. Moreover, to the extent that a transfer of real resources occurs, i.e. to the extent that they can increase their exports to the oil producing nations, to that extent the problem of recycling is reduced. However, the recycling problem is a major institutional problem. First, the investment preferences of creditors may not match the needs of the debtors, even excluding the low income developing countries, thus requiring intermediation. Secondly, the private financial channels are not fully capable of handling such rapidly accumulating funds, made available at short maturity, for an extended period.

3. If the private financial systems are not bolstered, and if public intermediation is not expanded to supplement the private markets, there would be a serious danger of the weaker countries having to restrict imports and reduce growth with serious consequences for themselves and a reduction of trade prospects for others.

### The Size of the 1974 Problem

4. The current account surplus of the oil exporting countries for 1974 is estimated at $65 billion. Due to time lags in payments and other technical factors, plus errors and omissions, the actual current account deficits of oil importing countries to be financed in 1974 is about $50 billion. Of this, approximately $30 billion are the current account deficits of the industrial and other developed countries; the deficits of the developing countries are estimated at about $20 billion.

5. In the aggregate, the 1974 deficits are offset by increases in world liquidity and by OPEC deposits, investments and aid. However, neither the increases in liquidity nor the use of OPEC surpluses are evenly distributed among the non-OPEC countries. Individual countries have had to:

- Use reserves. Thus far reserves have declined principally for some industrial and developed countries; the total may reach $7-8 billion.

- Draw on the IMF regular account and the Special Oil Facility, totalling perhaps $5 billion.

- Borrow directly from OPEC. Loans to industrial countries and long-term investments may total perhaps $10 billion; loans to developing countries may total perhaps $2-3 billion. (This includes amounts notified to UNEO.)

In addition, countries have had recourse to the Eurocurrency market.

6. Thus, during 1974 the private financial system has handled the financial flows, though there are increasing signs of strain. What the financial system does not deal with is the problem of the low income countries. Their deficits include not only the increased cost of oil, but also the rising costs of their increased requirements of food and fertilizer, and the continually rising costs of other imports -- increases which are not offset by either increased aid flows or increased export earnings.

The Principal Issues

7. Both the adjustment to higher energy prices by consumers and the increase in the capacity of oil exporters to invest and consume requires time. For the next several years very large surpluses will be generated annually. The initial resilience of individual countries and the international financial system is no indication of the capacity to deal with these recurrent deficits. The three essential issues are:

- The capacity of the private banking system to handle the rapidly accumulating amounts. This involves intermediation between short-term deposits and medium-term borrowing requirements, and between the country preferences of the depositors and the country distribution of capital requirements.

- The willingness of governments to share in the risks of lending to the less creditworthy of the developed countries and the middle and higher income developing countries.

- The ability of the international community to provide for the increased concessional capital requirements of the low income countries.

8. Because the private financial markets have been able to channel the bulk of the investable surpluses without extraordinary difficulty in 1974 provides no assurance that they can continue to handle the cumulative amounts forecast. Specifically, what is at issue is the increasing unwillingness of the financial markets to lend to those countries whose creditworthiness is being gradually eroded. Although independent banks cannot afford to take the risks of lending to such countries, national governments are obviously in a different position. A number of measures could be taken to strengthen the banking network so that the investment of surplus oil revenues can be handled without disruption, including:

a) Willingness of national central banks in the principal currency countries to provide discount facilities and/or guarantees to their private banks for lending to oil importing countries.

b) Expanded arrangements between the central banks to guard against the potential danger of unexpected and large shifts of funds between currencies.

c) Reducing short-term interest rates to non-residents to accelerate the trend towards longer term investment of oil exporting countries surpluses; this can be done by regulations of the type used by many countries recently to discourage capital inflows. This will enable intermediaries to make longer term commitments and reduce the uncertainty created by financing medium-term investments by very short-term funds.

9. Even a strengthened banking system must be supplemented by public action, at least for the next several years. The projected flow of funds is so large that banks will have problems of adjustment; the risk of lending to some countries will become too large for private financial institutions, or even a single country, to underwrite; and the commercial banking system will not deal with the problems of the low income countries.

10. For instance, if the growth targets of the UN Second Development Decade were to be achieved, the capital flows to the developing countries would have to rise from almost $20 billion in 1973 to over $30 billion by 1976 and to over $50 billion by 1980. Total Official Development Assistance, the concessional capital required by the low income countries, would have to rise from $9.8 billion in 1973 to $15.1 billion in 1976 and to over $24 billion in 1980.

11. To support the private financial system and to meet the capital requirements of the lower income countries, the following measures would be desirable:

a) Expand the IMF Oil Facility ($10-$15 billion). This is already under discussion in the IMF.

b) Expand intergovernmental borrowing along the lines recently agreed to by the EEC. It might be worth exploring whether the EEC Associated Countries could also have access to the proceeds of such loans.

c) Substantially expand the World Bank lending program, financed by increased borrowing in OPEC countries. Similar action by the Regional Banks. (The World Bank lending program has already been expanded substantially.)

d) Renew the effort to establish a facility which would lend on intermediate terms (say 3-4%, for 20-25 years).

e) Commitment by the industrial countries, at a minimum, not to reduce their aid flows in real terms, i.e. an "aid pledge" analogous to the trade pledge already agreed. This could perhaps be taken up in the Development Committee.

f) Reallocate bilateral concessional assistance, to the maximum extent feasible, to the lowest income countries. (This is under discussion in the DAC.)

g) Renew efforts to obtain OPEC contributions of grant financing to IDA, to the Regional Banks or to other development finance institutions.

h) Increase assistance to new OPEC aid institutions to assure early and effective utilization of the resources already available to them.

12. Two sets of measures are thus necessary. The first, required to strengthen the commercial banking system and to deal with the borrowing requirements of the higher income countries, will be taken most readily. The second, which is urgently needed by the lowest income countries, will attract less attention and may be largely overlooked. It is therefore on that set of problems that emphasis is needed.

EStern/ls
October 25, 1974

819/6/25

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: October 23, 1974

FROM: Ernest Stern, Director, Development Policy

SUBJECT: International Monetary Fund



When Hollis and I met with you last week, you said you would like some basic data on how the IMF operates. The basic framework of operations is described in the attachment. The IMF is, of course, a monetary agency, and its powers to function as such have been increased gradually, although it is still far from an international central bank. As a monetary agency, it does not lend for development but in support of changes in fiscal and monetary policies, although this distinction is increasingly difficult to maintain in developing countries. Also, it is important to recognize that the Fund facilities and policies are of great importance to many of the industrial countries, although some facilities of special interest to developing countries have been established. Unlike the Bank, the Fund has only a small amount of liquid assets, mainly its reserves, and operates through the purchase and sale of currencies, which are "on call" to it as needed.

10/22

Attachment

cc: Mr. Chenery

EStern/lms

# THE INTERNATIONAL MONETARY FUND

## General

1. Each member of the Fund has a quota. The quota determines a member's subscriptions (consisting of gold and its own currency), its voting power, and the benefits available from the various Fund facilities, which are always defined as a percent of quota. The present quota distribution is shown in Table 1. The present quotas total almost SDR 30 billion, of which almost SDR 7 billion (at the official price) is in the gold account.

2. In general, the quota is payable 25% in gold and 75% in national currencies, although there have been exceptions to this. The quotas are reviewed quinquennially, with the next review due February 1975. The principal reason for revising the quotas regularly is to keep them in line with the growth of international trade in nominal terms. As trade grows, the amount required by a member in balance of payments difficulty also increases. A second reason is to allow for changes in the relative economic position of members.

3. In general, a country starts with the Fund holdings of its currency at 75% of its quota. The member can purchase other currencies up to 25% of its quota (the gold tranche) by sale of its currency. After the Fund holdings of a member's currency reach 100%, further drawings (purchases) require consultation with the Fund and are dependent on conditions which become increasingly stringent.

## I. Sources of Funds

### A. General Account

4. Members can draw on the General Account in currencies of other members by paying for them in their own currencies. Amounts equal to the gold tranche are automatic; additional amounts require consultation. Originally other drawings, beyond 100% of quota, were limited to amounts which would not increase the Fund's holdings of member's currency by more than 25% in any 12 months nor make the total holdings exceed 200% of its quota. Since 1963 both these conditions have been relaxed.

5. To the extent one member purchases the currency of another, thus reducing the Fund's holding of that currency below 75% of its quota, the ability of the country whose currency has been used to draw on the Fund is increased.

6. Generally, members are expected to repay in 3-5 years. Charges are levied on amounts of a member's currency held in excess of quota. The structure of charges, simplified in July 1974, is as follows:

| | % Per Annum | |
|---|---|---|
| Service Charge | 0.5 | (payable only once per transaction) |
| Up to 1 year | 4.0 | |
| 1-2 years | 4.5 | |
| 2-3 years | 5.0 | |
| 3-4 years | 5.5 | |
| 4-5 years | 6.0 | |

According to the Fund Articles, charges for all members must be uniform.

B. General Agreement to Borrow

7. The General Agreements to Borrow became effective in 1962 with the principal industrial countries agreeing to lend to the Fund amounts totalling $6 billion (at 1962 par value) to supplement resources available for drawings. The amounts lent to the Fund were generally repaid when the drawings they financed were repaid.

8. Similar arrangements were made in 1974, but with a different set of countries, to finance the drawings on the oil facility.

C. Special Drawing Rights (SDRs)

9. The SDRs are unconditional international reserve assets created by the Fund. The value of the SDR is determined by the weighted value of a basket of principal currencies. When issued, SDRs are distributed to participating members in proportion to their Fund quota. Net cumulative SDR allocations are SDR 9.3 billion. The interest rate on the SDR was set at 5% for the period July 1-December 31, 1974; the rate can be adjusted at semi-annual intervals, based on the weighted average of short-term rates in the U.S., U.K., France and Japan.

II. Uses of Funds

A. General Account

10. Permissible drawings and charges as discussed above.

B. Special Oil Facility

11. Drawings under the Special Oil Facility are in addition to other drawings on the Fund. They are financed by special borrowings. Charges are:

| | % Per Annum | |
|---|---|---|
| Service Charge | 0.5 | (payable only once per transaction) |
| Up to 3 years | 6.875 | |
| 3-4 years | 7.000 | |
| 5-7 years | 7.125 | |

C. Compensatory and Buffer Stock Financing

12. A member may draw up to 50% of quota to compensate for a shortfall in export earnings (based on a five-year moving average; centered on the shortfall year), but outstanding drawings under this provision may not increase by more than 25% in a year. Regular charges and repayment schedules apply. Members can also draw to finance international buffer stocks of primary products. Drawings under this provision also may not exceed 50% of quota, and together with any compensatory financing may not exceed 75% of quota. These drawings are in addition to other drawings on Fund facilities.

D. Extended Fund Facility

13. On September 13, 1974, the Fund established an Extended Facility. A member may draw on this facility if its balance of payments problem would require a longer period of resolution than feasible under the drawings from the General Account and if there is an agreed program to deal with the problem. A member may draw up to 140% of quota under this program, provided the total Fund holdings of its currency do not exceed 265%. (I.e., a country can draw its gold tranche /25%/, its first credit tranche /25%/, plus 140% under this facility.) The drawings can be made available over a three-year period and repayments are due in four to eight years after each drawing. The charges are the General Account Charges, but can rise to 7%, depending on the repayment period agreed. Although no limit was set, staff estimates suggest that up to $500 million per year might be drawn.

14. Drawings on this facility are in addition to any drawings on the Oil Facility or the Compensatory Financing and Buffer Stock Facility.

III. Income and Expenses

15. The income and expenses of the Fund for the past decade are shown in the attached Table 2, reproduced from the IMF Annual Report. The deficits in the last three years are due principally to substantially reduced drawings on the Fund. Charges on drawings are the principal source of income. The decline in Fund drawings was caused by the very rapid, and broadly shared, rise in world reserves, starting in 1970. Fund reserves stood at SDR 717 million on April 30, 1974; SDR 352 million in the Special Reserve, against which operating deficits are debited, and SDR 365 million in the General Reserve.

EStern/lms

FUND QUOTAS
(Million SDRs)

Table 1

| | | | |
|---|---|---|---|
| 1. | Industrial Countries | | 18,365 |
| | United States | 6,700 | |
| | United Kingdom | 2,800 | |
| | France | 1,500 | |
| | Germany | 1,600 | |
| | Japan | 1,200 | |
| | Other | 4,565 | |
| 2. | Other Developing Countries | | 2,735 |
| | Greece | 138 | |
| | Romania | 190 | |
| | Spain | 395 | |
| | Turkey | 151 | |
| | Yugoslavia | 207 | |
| | Other | 1,654 | |
| 3. | Latin American LDCs | | 2,598 |
| | Brazil | 440 | |
| | Chile | 158 | |
| | Colombia | 157 | |
| | Costa Rica | 32 | |
| | Mexico | 370 | |
| | Uruguay | 69 | |
| | Venezuela | 330 | |
| | Other | 1,042 | |
| 4. | Middle East LDCs | | 1,017 |
| 5. | Asian LDCs | | 3,024 |
| | Bangladesh | 125 | |
| | India | 940 | |
| | Indonesia | 260 | |
| | Korea | 80 | |
| | Pakistan | 235 | |
| | Sri Lanka | 98 | |
| | Other | 1,286 | |
| 6. | African LDCs | | 1,450 |
| | Algeria | 150 | |
| | Chad | 13 | |
| | Ghana | 87 | |
| | Kenya | 48 | |
| | Morocco | 113 | |
| | Tanzania | 42 | |
| | Upper Volta | 13 | |
| | Zaire | 113 | |
| | Other | 871 | |
| TOTAL QUOTAS | | | 29,189 |
| | Developing Countries (Categories 3-6) | 8,089 | |
| | Industrial and Other Developed Countries | 21,100 | |

Appendix I (*continued*). The Fund in 1973/74

Table I.18. Income and Expenses, Fiscal Years Ended April 30, 1965–74

(*In millions of SDRs*)

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| Operational income | | | | | | | | | | |
| Service and stand-by charges, etc. | 11.8 | 15.6 | 7.1 | 7.4 | 14.6 | 13.0 | 3.2 | 3.0 | 3.2 | 2.5 |
| Charges on balances in excess of quotas | 35.9 | 65.7 | 82.5 | 82.0 | 107.4 | 124.7 | 128.1 | 62.0 | 28.2 | 28.2 |
| Interest on holdings of special drawing rights | — | — | — | — | — | 0.4 | 4.3 | 7.2 | 10.2 | 7.8 |
| Total operational income [1] | 47.7 | 81.3 | 89.6 | 89.4 | 122.0 | 138.1 | 135.6 | 72.2 | 41.6 | 38.5 |
| Deduct: operational expenses | | | | | | | | | | |
| Remuneration | — | — | — | — | — | 27.2 | 37.4 | 30.5 | 29.3 | 27.2 |
| Other | 4.6 | 16.1 | 17.8 | 11.9 | 22.3 | 19.1 | 11.8 | 1.2 | — | — |
| Net operational income | 43.1 | 65.2 | 71.8 | 77.5 | 99.7 | 91.8 | 86.3 | 40.5 | 12.2 | 11.2 |
| Administrative budget expenses | 13.0 | 15.0 | 18.1 | 21.3 | 24.4 | 28.6 | 33.2 | 37.1 | 39.4 | 43.5 |
| Deduct: assessments levied on participants for estimated expenses of operating the Special Drawing Account | — | — | — | — | — | 0.9 | 0.9 | 1.0 | 0.7 | 1.0 |
| Fixed property expenses | 4.6 | 5.7 | 3.3 | 0.5 | 4.5 | 6.5 | 7.5 | 17.7 | −4.8 [2] | 5.9 |
| Net valuation adjustment loss | — | — | — | — | — | — | — | — | 0.1 | 0.1 |
| Total administrative budget and fixed property expenses and net valuation adjustment loss | 17.6 | 20.7 | 21.4 | 21.8 | 28.9 | 34.2 | 39.9 | 53.7 | 34.0 | 48.4 |
| Net income or expenses (−) [3] | 25.5 | 44.5 | 50.4 | 55.7 | 70.8 | 57.6 | 46.4 | −13.3 | −21.7 | −37.2 |

[1] Excludes income from investments transferred to the Special Reserve until February 15, 1972.

[2] Represents sale of Fund's former headquarters building for the equivalent of SDR 21.2 million from which fixed property expenses of SDR 16.4 million have been deducted.

[3] Net income was transferred to the General Reserve until the fiscal year ended April 30, 1968. Of the SDR 55.7 million, SDR 70.8 million, SDR 57.6 million, and SDR 46.4 million net income in 1968, 1969, 1970, and 1971, respectively, SDR 18.3 million, SDR 38.9 million, SDR 40.0 million, and SDR 33.9 million were transferred to the General Reserve and SDR 37.5 million, SDR 31.9 million, SDR 17.5 million, and SDR 12.5 million were distributed under the provisions of Article XII, Section 6(*a*) and (*b*), of the Fund Agreement. The net expenses for the fiscal years ended April 30, 1972, 1973, and 1974 have been charged against the Special Reserve.

Mc N.
819/6/24



October 22, 1974

Dr. Sven Brohult
President
International Foundation for Science
Box 5073
S-102 42 Stockholm 5
Sweden

Dear Dr. Brohult,

Mr. McNamara has asked me to thank you for your letter of August 28 and hopes that you will continue to keep him informed of the progress of the International Foundation for Science. I apologize for the tardiness of this reply.

In response to your letter to me of the same date, I appreciate your reasons for wishing to delay further contacts with us and other interested institutions and people in the U.S.A. We shall be awaiting word from you, perhaps after your aquaculture experts have had a chance to meet.

With best regards,

Sincerely yours,

Charles Weiss
Science and Technology Adviser

CWeiss/rc

cc: Mr. Stern
Mr. Ljungh

FILE: International Foundation
for Science

IFS

# International foundation for science * IFS

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1974-08-28



Mr. Robert McNamara
President
International Bank for
Reconstruction and Development
1818 H. Street, N.W.
WASHINGTON, D.C. 20433
USA

SB/is

Dear Mr. McNamara,

./. It is a pleasure for me to send you the Minutes from the third Interim Baord meeting which was held in
./. Munich 17 - 18 May 1974. I enclose also the revised Granting Programme for 1974.

These documents will give you full information about the present position of the Foundation. We feel that the work has developed rapidly, both scientifically and organizationally. The network of the organizations joining the Foundation, is rapidly expanding. Eight new member organizations were admitted at the Board meeting, making a total of 32 organizations, representing 27 nations.

As the administrative capacity of the Foundation is still rather limited, we have had a busy summer following up the grants approved of. The support of the World Bank is of very great importance to us, now that we are trying to strengthen our international contacts. It seems to us that aquaculture research would be the most suitable starting point for discussions about the role of IFS in international research establishment.

With my best regards,

Yours sincerely,

Sven Brohult

Sven Brohult
President

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

pol paper

819/6/23

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 17, 1974

FROM: Charles O. Sethness

SUBJECT: Export Financing for Capital Goods



The U.S. is in broad agreement with the arguments made in Report 531 that the problems and disadvantages associated with Bank lending in support of national export credit agencies far outweigh the possible benefits. Additionally, the U.S. feels that use of the IBRD's guarantee authority to support regional export credit schemes would not under currently conceivable circumstances be justified. Indeed, the U.S. has opposed similar guarantee proposals in the Asian Development Bank and the Inter-American Development Bank in the past and would not wish the IBRD to encourage regional groups to believe it supports this concept.

We do not feel it is necessary at this time to discuss this report or the issues involved at a Board meeting. Since, however, the U.S. does have strong reservations on financing this type of activity, we would expect that, should any specific project proposals in this area be developed in the future, they would be brought to the Board before any type of Bank commitment is even implied; and that all policy aspects and alternatives would be discussed at that time.

COSethness:js
cc: Messrs. Knapp
Baum
Stern

COMMENTS ON IBRD STAFF STUDY ON
"EXPORT FINANCING FOR CAPITAL GOODS"



1. Participation in the financing of export credit would represent a fundamental departure from the traditional purposes of the World Bank in that it would involve the Bank in financing the sales of particular industries rather than investment in new productive capacity. The economic justification for such a departure is extremely dubious. It is unsupported in the study by any meaningful analysis.

2. Paragraph 6.02 of the study (Page 14) correctly states that the real issue is the priority of lending for export credit financing vis-a-vis other uses of Bank funds within the constraints of borrowing country creditworthiness and fund availability. But there is no analysis of the kinds of circumstances which might establish that priority, nor any discussion of the criteria and methods to be employed in assessing it.

3. No investigation appears to have been made of past examples of LDC success in expanding exports of manufactured products (or capital goods in particular) with a view to considering to what extent provision of subsidized credit was essential to that success and to what extent realized economic benefits exceeded costs involved.

4. In fact, there probably are no generally accepted and easily applied standards for determining the economic soundness of subsidizing export sales of particular industries. Furthermore, as the study makes reasonably clear, it would be difficult if not impossible for the Bank in administering financial support of export credit financing to maintain effective control over decisions on specific credit operations.

5. A major question can be raised as to whether the Bank should actively seek to promote establishment of industries in the developing countries which require access to subsidized credit in order to compete with developed country firms in export markets. By and large the industries given such support in developed countries are relatively heavy, advanced technology industries for which the developed countries tend to have a comparative advantage, but in most instances are poorly adapted to the economic circumstances of the LDC's.

6. In any event, Bank participation in the financing of export credit would benefit primarily advanced industrial sectors and the more economically advanced of the developing countries. It is thus difficult to reconcile with current efforts to concentrate Bank lending on the poorest countries and sectors.

7. In addition, the study fails squarely to face up to the basic legal question of whether or not participation in export credit financing could be legally reconciled with the Bank's Articles of Agreement. It appears to accept that it could be done only under "exceptional" or "extraordinary" circumstances warranting a departure from project financing, but it evades the question of what kinds of conditions might meet this test. Simply

being under developed and facing competition from developed countries in the sale of capital goods would hardly appear to be adequate.

8. Finally, it must be recognized that participation in export credit financing would involve the Bank in a highly contentious area of potential conflict with the national export credit financing agencies in the developed countries to which the Bank looks for financial support. The developed countries subsidize export credit for reasons which (whether rightly conceived or not) they believe to be in their national interests. And in so doing, they undoubtedly benefit the developing countries on balance by making capital goods obtainable on easier financial terms than would otherwise be available. It would be politically unrealistic to expect that they would take kindly to simultaneously providing funds through an international institution to help the developing countries meet the competition which results from such operations.

9. In general, the study does not adequately address the issues raised in earlier staff studies on this matter. It provides little or no economic analysis and minimizes the difficulties and problems involved. Unless a more persuasive case can be made -- which appears unlikely -- we would almost certainly continue to oppose strongly any Bank participation in export credit financing even on the limited bases summarized in Paragraph 2(c) of Mr. McNamara's covering memorandum.

October 17, 1974

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Un Fund

819/6/22

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: October 15, 1974

FROM: Ernest Stern, Director, Development Policy

SUBJECT: Commitments Under the UN Emergency Operation



Now that the UNEO reporting system (using a questionnaire which we helped design) has taken hold, our monthly reports will be based on the data collected. However, the data have considerable shortcomings and may not be an accurate record of emergency aid commitments, i.e., additional commitments of quickly disbursing aid with a grant equivalent of at least 25%. Some OPEC countries thus far have refused to make details on commitments available, others have refused to report at all on the bilateral commitments. For the DAC countries, the question of additionality is hard to establish. Table I, attached, summarizes the reported emergency assistance as of October 15, 1974. These commitments are intended to be disbursed by June 30, 1975. Table II shows the current status of the Secretary-General's Special Account.

10/15

Attachments

cc: Messrs. Knapp, Cargill, Clark and Hoffman

SEChernick/EStern:ag

TABLE I

Officially Reported Commitments Under the UNEO as of October 15, 1974

| Donor | Commitment Amount (in mlns. of US$) | Of Which in Grants | Assistance Direct | Through UNEO | Comments |
|---|---|---|---|---|---|
| Algeria | 51 | 43 | x | x | Additional to $107 m. contributed to Arab Regional Funds and Af.D.B. |
| Australia | 49 | 49 | x | | Excludes contribution to Papua New Guinea. |
| Canada | 99 | 83 | x | | Excludes contribution to Jamaica. |
| Denmark | 1 | 1 | x | | Additional to EEC contribution. |
| EEC | 150 | 150 | x | x | First tranche of the qualified commitment of up to $500. |
| Finland | 11 | 0 | x | | |
| Iceland | .04 | | x | | |
| Iran | 1,577 | not reported | x | x | Our monitoring shows total commitments of $867 million with a grant element of $367 million. Possible untied credit of $400 million to India, but terms not known. |
| Japan | 100 | not reported | x | | Possible additional commitment of up to $100 million. |
| Kuwait | ... | not reported | x | | Contributed $65 million to Arab Regional Funds and over $500 million bilaterally. |
| Netherlands | 16 | 16 | | x | Additional to EEC contribution. |
| New Zealand | 9 | 9 | | | To FAO fertilizer pool and conditional on others contributing. |
| Norway | 17 | 17 | x | x | |
| Saudi Arabia | 30 | 30 | | x | Also contributed $90 million to Arab Regional Funds |
| Sweden | 37 | 34 | x | x | |
| United Arab Emirates | 117 | not reported | x | x | Bilateral assistance, largely grants to Sahel countries, Yemen A.R., Tunisia, Syria and Somalia. |
| United Kingdom | 48 | 19 | | | Additional to EEC contribution. |
| Venezuela | 100 | 80 | x | x | |
| Yugoslavia | 7 | 3 | x | x | In local currency. |
| Arab Funds for Economic and Social Dev. | 80 | not reported | | | |
| IBRD/IDA | 100 | not reported | | | Board approved IDA program credits to India and Sri Lanka as of 8/29/74. Bangladesh program credit of $50 million not included. |
| League of Arab States | 121 | not reported | | | |
| GRAND TOTAL | 2,720.04 | | | | |

Source: UNEO Secretariat.

## TABLE II

Secretary-General's Special Account as of October 15, 1974

(in $US millions)

| A. | Contributors | Commitments in 1974 | Receipts to date | Observations |
|---|---|---|---|---|
| 1. | Algeria | 20 | - | Of which $10 million is earmarked for specified countries |
| 2. | European Community | 30 | - | |
| 3. | Iceland | .04 | .04 | |
| 4. | Iran | 20 | | |
| 5. | Netherlands | 16.35 | | |
| 6. | Norway | 2.8 | | |
| 7. | Saudi Arabia | 30 | | |
| 8. | Sweden | 11 | | |
| 9. | United Arab Emirates | 10 | | $0.5 million earmarked for Honduras |
| 10. | Venezuela | 80 | 30 | $50 million promised for early 1975 |
| 11. | Yugoslavia | 3.2 | | |
| | TOTAL | 223.39 | 30.04 | |

| B. | Recipients | Actual Disbursements | Observations |
|---|---|---|---|
| 1. | Bangladesh | 7 | Covers shipping of cereals granted by EEC. |
| 2. | India | 7 | Maintaining essential imports. |
| 3. | Mali | 2.5 | " " " |
| 4. | Central African Republic | 1.0 | " " " |
| 5. | Sierre Leone | 0.75 | " " " |
| 6. | Chad | 0.5 | " " " |
| 7. | Kenya | 1.75 | " " " |
| 8. | Malagasy Republic | 1 | " " " |
| 9. | Sri Lanka | 2.0 | " " " |
| 10. | Tanzania | 4.5 | For purchase of feed stock for fertilizer plant. |
| | TOTAL | 28.0 | |

Source: UNEO Secretariat.

FORM NO. 75
(7–73)

McN

WORLD BANK GROUP

| ROUTING SLIP | DATE 10-14 |
|---|---|

| NAME | ROOM NO. |
|---|---|
| Mr. McNamara | |
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|---|---|---|---|
| | APPROPRIATE DISPOSITION | | NOTE AND RETURN |
| | APPROVAL | | NOTE AND SEND ON |
| | COMMENT | | PER OUR CONVERSATION |
| | FOR ACTION | | PER YOUR REQUEST |
| | INFORMATION | | PREPARE REPLY |
| | INITIAL | | RECOMMENDATION |
| | NOTE AND FILE | | SIGNATURE |

REMARKS

| 1973 | CASE I 1980 | CASE II 1980 |
|---|---|---|
| 1510 | 1766 | 2084 |

Under case I output rises only 250 million tons, or 17% – an annual rate of slightly less than 2%. In case II output rises by 38% – an annual rate of about 4.8%.

E

| FROM | ROOM NO. | EXTENSION |
|---|---|---|
| | | |

Did we not assume a lower rate.



Another Financial Times report quoted the Chairman of Petroleum Economics, Dr. P.B. Frankel, as saying at a London Conference that "the sky is virtually the limit" for the price of the world oil supplies.

Speaking at a conference on world energy, sponsored by the Financial Times and the Oil Daily, Dr. Frankel was also quoted by the paper as saying that any alternative to exisitng oil supplies was eight to ten years away.



Other speakers included Dr. Jahangir Amouzegar, Chief of the Iranian Economic Mission in Washington, who emphasised conservation of oil and gas by both the consuming and producing states.

According to the Financial Times report, Dr. AMouzegar said Iran was more interested in using oil for high-value lubrication and refined product purposes because her own supplies would run out in 30 years at present consumption rates.

The Times also quoted Dr. Amouzegar as telling the Financial Times - Oil Daily Converenceon World Energy that the major oil producing states were likely to record a current surplus of between 45,000 million and 50,000 million dollars this year, appreciably lower than widespread estimates of between 60,000 million and 80,000 million dollars.

Dr. Amouzegar referred to World Bank ~~calculations~~ that the cumulative reserves of the major oil producers would be 650,000 million dollars by 1980, based on the assumption that output grew at seven per cent.

The Times report said that Dr. Amouzegar, who emphasised he was expressing a personal view, suggested that the seven per cent growth estimate was almost certainly too high. He said that energy and oil consumption were likely to grow at only four and five per cent annually.

A special feature in the Times business news section said that the "major preoccupation" of the Arab oil states was the scope for investment in their own economies rather than in the west.

The Times feature, which assessed the growing opportunities for western financial expertise in the Arab states, said that the Arabs "see themselves engaged in a race for time, to reach the state of industrial and financial "take-off" before their oil reserves are depleted."

The Times article referred to a recent conference in Beirut on the oil surplus funds, and said that "Speaker after speaker stressed the Arabs' need not just for industrial technology from the west, but for financial expertise to help them create a banking and capital market structure capable of transforming liquid surpluses into long-term investments.

"They have had enough of hordes of financiers and entrepreneurs from the United States and elsewhere arriving in Beirut every day and pressing the Arab bloc bankers there to invest in just about every kind of speculative western venture."

.../

RSM
819/6/20

Mr. B. B. King, Research Advisor, VPD

October 14, 1974

Ernest Stern, Director, Development Policy



MIT Industrial Liaison Program

The attached proposal was taken up with me in my earlier incarnation as Research Advisor. I am therefore passing it along to you for action.

MIT has an Industrial Liaison Program which, as I understand it, consists of providing members (usually U.S. corporations) with information on research conducted at MIT and of seminars on research results and topical matters. After the presentation of our research paper to the Board, Dr. Barco, who is a very active alumnus of MIT, suggested a mutuality of research interests. This led to the meeting with Lampert and Hagopian referred to in the letter.

While MIT obviously has many research projects which will be of interest to different parts of the Bank, it has many which are irrelevant. Moreover, we have many contacts with MIT. It is therefore not clear how much we would benefit from such a program.

If the Bank were to make effective use of the program, someone would have to take care of disseminating the MIT material to the right offices. There is also the cost - $20,000 - which is not budgeted for.

In view of these factors, I have been slow to pursue the offer and have talked about the possibility of a free trial year. I do not think that Mr. McNamara has views either way.

Attachment

bcc: Mr. Chenery
EStern/lm

IBRD/IDA
WDC
819

Form No. 89
(2-66)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP

Date
Oct. 8, 1974

| Name | Room No. |
|---|---|
| Mr. Stern | |
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|---|---|---|---|
| | To Handle | | Note and File |
| | Appropriate Disposition | | Note and Return |
| | Approval | | Prepare Reply |
| | Comment | | Per Our Conversation |
| | Full Report | | Recommendation |
| | Information | | Signature |
| | Initial | | Send On |

Remarks

To prepare a reply for Mr. McNamara's signature.

Anders Ljungh

From

OFFICE OF THE PRESIDENT



CAMBRIDGE, MASSACHUSETTS 02139

October 2, 1974

Mr. Robert S. McNamara
President
The World Bank
1818 H Street, NW
Washington, DC 20433

Dear Bob:

I understand that Dr. Virgilio Barco spoke to you about the proposal that the World Bank join the MIT Industrial Liaison Program, or the "ILP", as we call it. In addition to Dr. Barco, our people (General Lampert and Robert Hagopian) have talked with Mr. Ernest Stern, Dr. Charles Weiss, and Mr. Jeffrey Balkind. I'd like to offer a few personal observations concerning the ILP, described in the enclosed leaflet.

A proper question is how the World Bank would gain from membership, since many of your staff members already have contacts at MIT; and why the World Bank should be asked to pay the minimum $20,000 in annual support to this Program when MIT might benefit subsequently from other programs with the Bank, such as specific research contracts and individual consulting arrangements.

Several current members of the ILP also have many contacts at MIT and nevertheless profit from membership. About 2,000 separate research projects are underway here. Because individual faculty members are unlikely to know of activities outside their own fields of interest, the ILP Liaison Officer, whose duties are described in the leaflet, has the job of insuring that the member organization is broadly informed on <u>all</u> research activities of interest to the member. Membership would give the World Bank good assurance that it will have effective use of the totality of information available from the Institute. The enclosed "The World Bank and MIT Research", which lists several research programs of mutual interest, documents in an impressive way the potential in a formal liaison between our two organizations.

The additional services described in the leaflet are equally significant and valuable. For example, the symposia and seminars frequently cover subjects which we believe are of interest to the Bank, such as the enclosed "Emerging Aspects of International Monetary Problems" and "Politics and Economics of Trade with Russia and China".

The Program requires a well-qualified staff and a variety of support services. The funds needed to operate the ILP are substantial and necessitate that member companies be willing to pay for the service, irrespective of any specific research contracts or individual consulting arrangements resulting from a member's participation.

We fully expect to provide a participating member services well worth the annual fee. I hope that the World Bank will join the Program and am confident you would find it a sound investment.

With my warmest regards, I am

Sincerely yours,

Jerry

Jerome B. Wiesner
President

Enclosures

# THE WORLD BANK AND MIT RESEARCH

To demonstrate the relevance of ongoing MIT research programs to the current activities and interests of the World Bank, the attached preliminary tabulation was prepared. Projects listed in MIT's Directory of Current Research are shown for the major sectors contained in "World Bank Operations, Sectoral Programs and Policies", 1972. A close and comprehensive relationship appears evident for all sectors with the exception of "Tourism".

The attached listing also includes several projects under the headings "Nutrition" and "Others" which appear to be of interest to the World Bank.

February 4, 1974

WORLD BANK OPERATIONS

By Sector And

MIT RESEARCH PROJECTS

---

Agriculture

| | |
|---|---|
| 4.04.001 | Robotics |
| 4.22.010 | Sesto San Giovanni: The Transformation of and Italian Suburb |

Industry

| | |
|---|---|
| 4.10.005 | Multinational Construction Firms and Transfer of Technology |
| 4.10.037 | Defining Alternative Strategies for the Sahel-Sudano |
| 4.13.003 | International Trade Theory |
| 4.18.022 | Energy Requirements for Production of Metals |
| 4.24.001 | Problems of Advanced Industrial Societies |
| 4.24.003 | Business and Political Links in Black African States |
| 4.29.035 | Guidelines for International Enterprises |
| 4.29.036 | Japanese Model of Technology Applied to Brazil |
| 4.29.037 | Barriers to Innovation in Less Developed Countries |
| 4.29.081 | Employment Effects of U.S. Investment: Brazilian Auto Industry |
| 4.29.082 | Regulation of Industrial Conflict in Brazil |
| 4.45.014 | Technological Development and International Institutions |
| 4.51.016 | Industrial Facilities Location |

Transportation

| | |
|---|---|
| 4.02.017 | Innovative Transportation and Environmental Design |
| 4.10.010 | Investment Strategies for Highway Construction |
| 4.10.059 | Railroad Network Evaluation |
| 4.10.060 | Railroad Service Reliability Project |
| 4.10.061 | Airport Access Case Study |
| 4.10.064 | Models of Facility Location |
| 4.11.003 | Port Design and Analysis Methodology |
| 4.41.011 | Operations Research Applied to Transportation Problems |

Transportation continued

4.50.002 Urban Transportation in Developing Countries
4.50.003 Air Transportation in Developing Countries
4.50.004 Systems Analysis as an Aid in the Development Process
4.50.005 Standards for Urbanization and Housing Technologies in Kenya
4.50.008 Highway Cost Model
4.51.004 Aggregate Demand Modeling
4.51.017 Urban Goods Movement
4.51.019 Barriers to Innovation in Goods Distribution
4.55.003 Transportation Information Systems
4.55.011 Transportation and Community Values
4.55.013 Transporation Planning Research: State of Israel

Telecommunications

4.13.012 Economics of Television Broadcasting
4.13.013 Allocation of the Electromagnetic Spectrum for Land Mobile Use
4.15.018 Spectrum Management Studies for Land-Mobile Radio
4.24.017 Asian Communications, Economics and Social Change
4.24.032 Telecommunications Policy
4.44.006 Telecommunications Policy Planning
4.45.019 World Communication

Electric Power

4.10.031 Offshore Floating Nuclear Power Station
4.10.038 Requirements for Water and Electric Power in Saudi Arabia
4.16.007 Power System Modeling
4.16.008 Adaptive Modeling and Control for Electric Power Systems
4.18.004 Environmental-Economic Evaluation Models of Energy Systems
4.18.007 Economic-Environmental Tradeoffs in Power System Expansion Planning
4.18.008 Electric Generation System Scheduling and Simulation
4.18.019 High Concentration Solar Energy Collectors
4.20.002 Environmental Impact of Electrical Energy Production

Water Supply and Sewerage

4.10.025 Professional Education in Environmental Management
4.10.039 Analysis of Water Quality Monitoring Programs
4.10.040 Strategies in Water Quality Management
4.10.041 Screening Models for Water Resource Planning
4.10.042 Hydrologic Network Design
4.10.043 Estimation of Hydrologic Parameters
4.10.044 Project Evaluation: Budget Constraints
4.10.045 A Conceptual Model of Continental Water Storage Flux
4.15.036 Wastewater Treatment with High Energy Electrons
4.18.012 Cooling Water Discharge Studies
4.50.001 Technology Transfer for Water Resource Planning

Education

4.19.001 Center for Advanced Engineering Study
4.14.001 Division for Study and Research in Education
4.25.004 Educational Technology

Population Planning

4.24.005 Population Dynamics and Armed Conflict
4.24.006 Political Demography
4.24.007 Internal Migration in India
4.39.175 Fertility Control in Central Africa

Urbanization

4.02.010 Low Cost Housing and Urban Design in Developing Countries
4.02.012 Program in Industrialization of the Housing Sector
4.29.075 A Plan for Urban Renewal
4.41.008 Resource Planning in Urban Public Safety Systems
4.45.007 East African and Ghetto America Economic Development
4.51.015 Equilibrium Model of Urban Location
4.54.004 Urbanization and Unemployment in Indonesia
4.54.009 Housing Technology and the Needs of Developing Countries

Nutrition

4.24.011 International Nutrition Planning
4.24.012 Analysis of Malnutrition Causes
4.39.011 Nutrition and Behavior
4.39.013 Effects of Chronic Malnutrition on Brain Function

Nutrition continued

4.39.014 Effect of Neonatal Diet on Response to Infectious Disease
4.39.015 Nutrition and Development
4.39.065 Nutrition Evaluation of Single-Cell Protein
4.39.086 Endemic Goiter in Latin America
4.39.087 Iron Deficiency Anemian and Work Capacity in Adult Males
4.39.151 Protein Concentrate Made from Squid
4.39.152 Preparation of Canned and Dried Squid Products
4.39.167 Child Nutrition Evaluation Project
4.39.168 International Malnutrition Map
4.39.169 Nutrition, Food Processing and Import Substitution in Chile
4.39.170 Multidisciplinary Analysis of Malnutrition Casuality
4.39.171 Nutrition Planning in Indonesia
4.39.172 Nutrition Planning in Pakistan
4.39.173 Nutritional Status of Population Groups

Others

4.13.014 Latin American Financial Markets
4.13.015 Socialism as a Producers' Economy
4.15.025 Socioeconomic Systems Analysis
4.20.003 International Environmental Control: Pollution from Trace Metals
4.24.002 International Business
4.24.004 Resource Scarcity and Foreign Policy
4.24.008 Social Science Data on India
4.24.009 Psychological Bases of Asian Politics
4.24.010 African Liberation Movements
4.24.022 Social Conflict and Radicalism in Relatively Developed Democracies
4.24.027 Analysis of Global Interdependence
4.24.029 Science and International Relations
4.24.037 Forecasting in Political Analysis
4.29.005 Implications of Alternative International Payment Systems
4.29.011 Research Cooperation in the OECD
4.29.017 Brazilian Development Bank Training and Research
4.29.029 Characteristics of Effective Helping Organizations
4.29.032 Workers' Ownership and Management in Peru
4.29.033 Comparative Effectiveness of Public and Private Enterprises
4.29.068 Sharing Rules for International Joint Ventures
4.40.003 Technical Assistance on the Coastal Zone
4.50.006 Structural-Acoustic Interaction in Water

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOP

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

# ROUTING SLIP

Date Oct. 18

OFFICE OF THE PRESIDENT

| Name | Room No. |
|---|---|
| Mr. McNamara | |
| ~~Mr. Stern~~ | |
| | |
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| | | | |
|---|---|---|---|
| | To Handle | | Note and File |
| | Appropriate Disposition | | Note and Return |
| | Approval | | Prepare Reply |
| | Comment | | Per Our Conversation |
| | Full Report | | Recommendation |
| x | Information | | Signature |
| | Initial | | Send On |

Remarks

From

MSStroud

819/6/19

LE DIRECTEUR
de la
Division fédérale du Commerce

Berne, 10 October, 1974.



Dear Bob,

Ambassador Jacobi who just returned from the annual meetings of the Boards of Governors informed me of the admission of Switzerland as an observer to the newly created Development Committee. May I tell you how much we appreciate the fact that Switzerland can be associated with the work of this important group.

Mr Jacobi told me about the valuable advice he got from your staff and especially from Mr Ernest Stern, advice and help which no doubt were instrumental in bringing about this positive result. I am sure that our observer status will contribute to the strengthening of our ties with the World Bank Group.

May I express to you - and through you to Mr Stern - my gratitude for your ready understanding of the special position of Switzerland.

Believe me to be,

cordially yours

Paul R. Jolles

Mr Robert S. McNamara
President
International Bank
for Reconstruction and Development
1818, H. Street, N.W.
W a s h i n g t o n , D.C. 20433, U.S.A.

6739/16

/cc
1) RSM
2) Dev. Comm

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

889/6/18

TO: Mr. Robert S. McNamara, President

DATE: October 10, 1974

FROM: Ernest Stern, Director, Development Policy

SUBJECT: World Food Conference



You asked where the U.S. position on the Food Conference stands. As far as I know, the position will consist of:

a) An offer of more aid for food production (about $250 million is in the now comatose aid bill).

10/10

b) A restatement of willingness to provide PL480, again without mention of specific figures.

c) Increased financing for agricultural research. (Here the hope is to develop some permanent source of U.S. financing - e.g. loan reflows - which would allow increased support for the CGIAR and expanded bilateral support.)

d) A statement on reserves, which is still being hotly debated. USDA still argues for the private sector approach with a variety of views up from there to internationally agreed levels, bilaterally held.

EStern/lm

FORM NO. 75
(7-73)

WORLD BANK GROUP

| ROUTING SLIP | DATE October 10,1974 |
|---|---|

| NAME | ROOM NO. |
|---|---|
| r. McNamara | |
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| | APPROPRIATE DISPOSITION | | NOTE AND RETURN |
| | APPROVAL | | NOTE AND SEND ON |
| | COMMENT | | PER OUR CONVERSATION |
| | FOR ACTION | | PER YOUR REQUEST |
| | INFORMATION | | PREPARE REPLY |
| | INITIAL | | RECOMMENDATION |
| | NOTE AND FILE | | SIGNATURE |

REMARKS

I thought you might like to know that Maury Williams' draft Chairman's Report for 1974 contains the attached paragraph.

| FROM | ROOM NO. | EXTENSION |
|---|---|---|
| E. Stern | E1243 | 5451 |

111. The active support of the International Monetary Fund through regular stabilization programmes and the Extended Fund Facility will be most important in strengthening the credit standing of developing countries -- providing an added measure of confidence for lenders.

112. Conventional lending by the World Bank should be expanded rapidly, even to some of the most seriously affected countries, as has been proposed by Robert MacNamara. Particularly helpful would be the possibility of the World Bank and other international financial institutions lending at inter-mediate terms, less concessional than IDA but still appropriate to the most seriously affected countries. Of course, expanded Bank lending should be fully integrated with programmes for structural adjustments.

113.

114. Official development assistance is a scarce resource relative to needs and greater attention must be given to its most effective use. In part, this is a matter of reappraising the geographical distribution in favor of further concentrating concessional aid on low income countries. But there also is a question of governments resisting the use of concessional development funds for a variety of commercial and political purposes which have little to do with development objectives -- and for which other means could be equally effective. Official development assistance should be reserved for urgent longer-term programmes of the low-income countries who must have this help if they are to cope with their problems, and avoid becoming clients on a list of critical disaster countries.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/16

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: October 9, 1974

FROM: Ernest Stern, Director, Development Policy E.S.

SUBJECT: Energy Pricing



Did you want it back? yes

1. Although you are pressed for time, it is worth looking at the attached study issued by Tom Rees. Pages 3-20 summarize the individual chapters well and are worth looking over.

2. The table on Page 166 (a separate xerox copy is attached) answers partially your question about price differentials by source of supply. It assumes a cif price, U.S. of $10 per barrel and then works it back to the fob price for the exporting country.

Attachments

EStern/lm

TABLE XI-1.—PROJECTED LONG-RUN CARTEL PRICE FOB EACH OPEC COUNTRY

| OPEC country | Transport cost[1] | Representative crude: Gravity in degrees | Representative crude: Sulfur (in percent) | Quality differential[2] | Netback factor (col. 2 plus col. 5) | FOB pric ($10 plu col. 6) |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Algeria | $0.60 | 44 | 0.1 | $0.88 | $0.28 | $10.28 |
| Indonesia | .91 | 35 | .1 | .34 | −.57 | 9.43 |
| Iran | 1.50 | 33 | 1.5 | −.73 | −2.23 | 7.77 |
| Iraq | 1.50 | 36 | 2.0 | −.93 | −2.43 | 7.57 |
| Kuwait | 1.50 | 31 | 2.5 | −1.49 | −2.99 | 7.01 |
| Libya | .60 | 39 | .2 | .51 | −.09 | 9.91 |
| Nigeria | .60 | 33 | .2 | .18 | −.42 | 9.58 |
| Qatar | 1.50 | 39 | 1.4 | −.26 | −1.76 | 8.24 |
| Saudi Arabia | 1.50 | 34 | 2.0 | −1.05 | −2.55 | 7.45 |
| United Arab Emirates | 1.50 | 39 | .7 | .16 | −1.34 | 8.66 |
| Venezuela | .25 | 29 | 1.7 | −.99 | −1.24 | 8.76 |

[1] Rounded, at world scale 100, as a reasonable long run approximation.

[2] The basic crude for differentials is taken to be 0.5 percent sulfur and 34°. The sulfur differential is calculated as $0.07 per barrel for each 0.1 percent above or below 0.5 percent sulfur. The gravity differential is set at $.06 per barrel added for all degrees above 34°; $.03 subtracted for all below. ("Representative Crude Oil Prices," the Petroleum Economist, April 1974, p. 58.) The adjustments noted are perhaps overstated because they are based on the posted price. Given the confusion in actual prices, and the fact that some oil moved at the posted price (or 93 percent of it) during the time to which these differentials applied, we concluded that using the full differential was appropriate. Representative crudes were selected for each country with no formal attempt at weighting the different curdes by prospective production. Data on crude types was taken from: "Analysis of the World's Crudes," and "Major Oil Fields Around the World," the International Petroleum Encyclopedia, 1973, Tulsa, the Petroleum Publishing Co., 1973, pp. 426-433; 198-204.

the factors leading to the expected per barrel revenue (Col. 7) of the OPEC countries at the posited c.i.f. U.S. price of $10.00.

*Variations From the Long Run Cartel Price*

On the assumption that a $10.00 cartel price is chosen by OPEC, its output policy will be settled. Whether the chosen price can be maintained, however, depends upon the members of the cartel following that implicit output policy. Their actions in turn depend in part on whether the price, and their market shares, are perceived by them to be appropriate. If all members are satisfied, the price will remain constant. When there is disparity for a country between actual results and hoped for results, however, variations in the world price may occur. We wish to examine here two issues: What are the factors that cause member countries to actively seek for themselves different prices and outputs than those implicit in the OPEC decision? What is the permissible variation in the world price that can be accommodated within the cartel?

Our task is simplified by the asymmetry of potential cartel disruptions. Because the focal price in the long run is the *upper bound* price, and because that price in the long run cannot be increased by any cartel member (except possibly Saudi Arabia) without intolerable cost to the country restricting output, we can ignore upside revisions.[9] The issues

[9] The recent period in the petroleum market in which there are calls for higher prices even though excess supply is appearing is an aberration. It bears the seeds of its own correction.

Mr. Stern
McN
819/6/15

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433 U.S.A.

OFFICE OF THE PRESIDENT



September 30, 1974

Dear Mr. Corea:

Thank you for your letter of August 27 and the enclosed study on the indexation of primary commodities.

Maintaining the import capacity of the developing countries, particularly of the poorest, is one of the most pressing which faces the international community in the present economic situation. I welcomed your exploration of one of the measures in this area. I have asked our economic staff to review the document in detail and send you any comments.

Sincerely,

Robert S. McNamara

Mr. Gamani Corea
Secretary-General
United Nations Conference
on Trade and Development
Palais des Nations
CH - 1211 GENEVE 10

See "Commodities General" file for full information — memo 9/24/74 ES to RSM

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Un Fund

819/6/14

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: September 25, 1974

FROM: Ernest Stern, Director, Development Policy



SUBJECT: OPEC Commitments to MSA Countries

1. We have reviewed the data available on commitments by OPEC countries to the Most Seriously Affected countries identified by the U.N. Secretary General. The data has been compiled from a variety of sources, official and unofficial, and therefore is subject to further revision. In some cases also terms are not yet known. The list of known commitments from the seven major OPEC donors is attached.

2. To arrive at the best possible estimate for comparison with EEC conditional commitment we have used only those commitments made after April 15, 1974, which was the start of the U.N. General Assembly Special Session, and for which terms are fully known. These are as follows:

9/26

| | | Million dollars | |
|---|---|---|---|
| | | Amount | Grant Equivalent |
| 1. | Iran to India. Reported May 20; 40% grant element | 137.0 | 54.8 |
| 2. | Iran to Pakistan; announced July 17; 28% grant element | 580.0 | 162.4 |
| 3. | United Arab Emirates to Somalia. April 18; 32% grant element | 9.4 | 3.0 |
| 4. | UAE to Somalia, April 18; grant | 80.0 | 80.0 |
| 5. | Venezuela commitments to UNEO - grant | 100.0 | 100.0 |
| | Total | 906.4 | 400.2 |

3. There are also two grants - $40 million from Saudi Arabia and $20 million from the United Arab Emirates to the Special Fund for Africa. These funds were made available in July-August to a number of African countries. Although not all potential recipients are on the MSA list it is reasonable to assume that only 1/3 went to the MSAs. The total grant equivalent to the commitments of the largest OPEC donors to the MSAs becomes $420.2 million. In addition we expect that some of the commitments for which details on terms are not yet available will be eligible for inclusion. Finally while technically the

commitments prior to the Special Session might be excluded they are, of course, in response to the same problem and made by new donors. The amounts are not insignificant. For instance, the Iraq agreement with India was signed only 15 days earlier, totals $110 million, with a grant equivalent of $42.9 million. Thus, if somewhat more lenient criteria were used the grant equivalent of commitments by the OPEC donors would be at least $500 million.

Cleared by Mr. D. Taylor, P&B

| | |
|---|---|
| Bilateral | $ 1134 m |
| Multilateral | $ 3753 m |
| Total | $ 4887 m |

September 25, 1974

| FROM IRAN | $m |
|---|---|
| To : India | |
| 2.4m tons oil (69% on credit) 40% grant element. DAC reported the deal on 5/20/74. | $137 |
| Pakistan | |
| Central development and foreign exchange requirements. 28% grant element. Announced in Islamabad July 17 | $580 |
| Textile and Cement Factories. Terms unknown. Announced 8/4 by Bhutto in press conference | $ 63 |
| Sri Lanka | |
| Unknown purpose - may be a general grant. Terms unknown. Reported by "reliable sources" 8/25. | $ 45 |
| Total Bilateral | $825 |
| IBRD | |
| 2-yr. bonds - First half, 1974 | $ 15 /a |
| 4/15/74 issue | $200 |
| 10/15/74 issue (upcoming) | $300 |
| Total Multilateral | $515 |
| Total Bilateral and Multilateral | $1340 |

| From IRAQ | |
|---|---|
| To : India | |
| 2m. tons of oil (46% on credit) - 39% grant element. Agreement signed 3/29/74 | $110 |
| Total Bilateral | $110 |

/a All of which were roll-overs.

| | $m |
|---|---|
| Iraq Fund | |
| In May, Iraq set up the Iraq Fund with the intent of capitalizing it at $170 m. No information as to whether funds were actually made available | |
| Total Bilateral and Multilateral | $110 |

From KUWAIT

| | $m |
|---|---|
| To : Sri Lanka | |
| Transfer to central bank to finance imports. Terms unknown. Reported by a "reliable source" that funds were already transferred | $ 21 |
| P.D.R. of Yemen | |
| Abyan dam project. Grant element of 90%. Agreement signed prior to 5/24 | $ 14 |
| Total Bilateral | $ 35 |
| IBRD | |
| 2-yr. bonds | $ 1.5 /a |
| IDA | |
| Advanced contribution to IDA (pledged #32 m.) | |
| Total Multilateral | $ 1.5 |
| Total Bilateral and Multilateral | $ 37 |

/a All of which are roll-overs.

| | $m |
|---|---|
| From LIBYA | |
| To : | |
| Total Bilateral | $ 0 |
| Islamic Development Bank<br>Subscribed amount shown in right-hand column. Paid - $150 m; this was announced by Finance Minister 8/26 | $360 |
| Total Multilateral | $360 |
| Total Bilateral and Multilateral | $360 |
| From SAUDI ARABIA | |
| To : | |
| Total Bilateral | $ 0 |
| Arab Fund for Economic and Social Dvlpt.<br>Subscription announced in 1st half of 1974 | $ 60 |
| Special Arab Fund for Africa<br>Made available before 8/16/74 | $ 40 |
| IMF Oil Relief Fund | $1200 |

| | $m |
|---|---|
| IBRD | |
| 2-yr. bonds (all roll-overs) | $ 10 |
| 6/20/74 issue | $141 |
| Total Multilateral | $1451 |
| Total Bilateral and Multilateral | $1451 |

From UAE

| | |
|---|---|
| To : Pakistan | |
| Oil Refinery and Pipeline (partially an equity investment). Terms unknown Reported by OECD in March | $ 46 |
| Somalia | |
| Unknown purposes for loan of $9.4m (grant element approximately 32%) and grant of $80. Both announced by UN permanent representative on 4/18. | $ 89 |
| Yemen Arab Republic | |
| Grants for water and TV systems First half of 1974 | $ 6 |
| Sahelian Region | |
| Relief Grant. Before May | $ 3 |
| Total Bilateral | $144 |
| IMF Oil Relief Fund | $121 |
| Special Arab Fund for Africa | |
| Made available in July-August period | $ 20 |
| IBRD | |
| 5/15/74 issue | $ 76 |
| Total Multilateral | $217 |
| Total Bilateral and Multilateral | $361 |

| | $m |
|---|---|
| From VENEZUELA | |
| To: | |
| Total Bilateral | $ 20 [/a] |
| Andean Development Corp. Terms unknown; date unknown - Probably before June. Subscription | $ 65 |
| Caribbean Development Corp. Terms unknown; date unknown - probably before June. Subscription | $ 30 |
| Inter-American Development Bank Terms unknown; date unknown - probably before June. Subscription | $500 |
| UN Emergency Fund | $ 80 |
| IBRD | |
| 2-yr. bonds (includes $4m roll-overs) | $ 10 |
| 3/1/74 issue | $ 23 |
| 8/15/74 issue | $500 |
| Total Multilateral | $1208 |
| Total Bilateral and Multilateral | $1228 |

/a Under UN Emergency Fund

Mr ROT: ERG
pls speak
Ahw

9/28 To Messrs: Knapp, McN, Cargill, Healey
info
McNamara
819 /6/13

FRANKLIN NATIONAL BANK

450 PARK AVENUE

NEW YORK, N.Y. 10022

212-832-4028

JOSEPH W. BARR
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

September 23, 1974



The Hon. Robert S. McNamara
President
International Bank for Reconstruction and Development
19th and H Street, Room E1227
Washington, D. C. 20433

Dear Bob:

Thanks so much for that most enjoyable luncheon that you gave me on Friday.

Enclosed are two sets of statistics. One set shows the ratios of equity capital and bad debt reserves to deposits for the top fifty banks in the United States as of June 30th. These ratios have not changed much since that date. The second set of statistics sets forth the earnings ratios and, in the last two columns, sets out the relationships of bid prices to book value. These statistics are also as of June 30th. There has been an enormous reduction in bid prices since June 30th with a consequent reduction in the relationship of bid prices over book.

These are the statistics to which I referred when we both agreed that it was probably impossible for the commercial banking system in the United States to do much of the re-cycling that is required to invest surplus OPEC funds. As you can see, capital ratios are very, very low by any historical standards. Secondly, you can observe that it is not going to be easy for banks to raise additional equity capital -- at least in the immediate future.

Bob, I believe that not many people have thought through this problem. I believe that when they do they will come to the conclusion that the World Bank and IMF are probably the best vehicles to re-cycle these petro dollars and to take the necessary risks in loaning to the deficit countries.

FRANKLIN NATIONAL BANK

The Hon. Robert S. McNamara September 23, 1974

These statistics came courtesy of the M. A. Schapiro Company. They did the equity to deposit statistics at my request. They are great on all sorts of statistics for the commercial banks in the United States and overseas.

Thanks again for lunch.

Sincerely,

Enc.

# PER SHARE EARNINGS(1) AND THE MULTIPLE SINCE 1970

| | Earned 12 Months Dec. 31, 1970 | Bid Price(2) Dec. 31, 1970 | Price/ Earnings Ratio | Earned 12 Months Jun. 30, 1974 | Bid Price(2) Aug. 31, 1974 | Price/ Earnings Ratio | Book Value(2) Jun. 30, 1974 | Bid Price(2) Over Book |
|---|---|---|---|---|---|---|---|---|
| **PRICE INDEX OF 25 BANKS** | $12.64 | 160.5 | 12.7 | $18.80 | 133.7 | 7.1 | — | — |
| **7 Banks in New York City** | | | | | | | | |
| Bankers Trust New York Corporation | $ 5.25 | 64½ | 12.3 | $ 6.63 | 32⅞ | 5.0 | $52.89 | —37.8% |
| Charter New York Corporation | 3.69 | 40¼ | 10.9 | 4.14 | 19⅞ | 4.8 | 37.30 | —46.7 |
| Chase Manhattan Corporation | 4.37 | 51½ | 11.8 | 5.43 | 29¾ | 5.5 | 43.71 | —31.9 |
| Chemical New York Corporation | 5.71 | 65¼ | 11.4 | 5.67 | 29 | 5.1 | 50.71 | —42.8 |
| Citicorp | 1.34 | 17⅜ | 13.0 | 2.35 | 26¼ | 11.2 | 15.91 | 65.0 |
| Manufacturers Hanover Corporation | 3.04 | 34¾ | 11.4 | 3.96 | 23⅜ | 5.9 | 28.81 | —18.9 |
| J. P. Morgan & Co. Incorporated | 2.79 | 33⅝ | 12.1 | 4.18 | 47 | 11.2 | 27.52 | 70.8 |
| **4 Banks in California** | | | | | | | | |
| BankAmerica Corporation | $ 2.42 | 33¼ | 13.7 | $ 3.41 | 27⅛ | 8.0 | $23.44 | 15.7% |
| Crocker National Corporation | 3.19 | 34¾ | 10.9 | 2.76 | 15⅜ | 5.6 | 30.45 | —49.5 |
| Security Pacific Corporation | 2.84 | 29⅞ | 10.5 | 3.01 | 16 | 5.3 | 27.95 | —42.8 |
| Wells Fargo & Company | 1.77 | 21 | 11.9 | 2.32 | 12⅜ | 5.3 | 20.72 | —40.3 |
| **14 Banks in Other Centers** | | | | | | | | |
| CleveTrust Corporation | $ 4.79 | 42¼ | 8.8 | $ 6.10 | 28¼ | 4.6 | $54.79 | —48.4% |
| Continental Illinois Corporation | 3.79 | 37⅜ | 9.9 | 5.24 | 25⅞ | 4.9 | 40.63 | —36.3 |
| Detroitbank Corporation | 5.83 | 46¾ | 8.0 | 7.38 | 30¼ | 4.1 | 57.64 | —47.5 |
| First Chicago Corporation | 1.56 | 15 | 9.6 | 2.52 | 18½ | 7.3 | 18.64 | — 0.8 |
| First National Boston Corporation | 3.47 | 32⅞ | 9.5 | 4.63 | 24 | 5.2 | 37.21 | —35.5 |
| First Pennsylvania Corporation | 2.48 | 29⅜ | 11.8 | 3.36 | 14¾ | 4.4 | 20.94 | —29.6 |
| Girard Company | 6.43 | 55½ | 8.6 | 6.69 | 30 | 4.5 | 59.93 | —49.9 |
| Mellon National Corporation | 5.09 | 54½ | 10.7 | 5.84 | 35½ | 6.1 | 58.17 | —39.0 |
| National Detroit Corporation | 6.51 | 50¼ | 7.7 | 7.44 | 31 | 4.2 | 62.90 | —50.7 |
| Philadelphia National Corporation | 4.09 | 40¼ | 9.8 | 4.81 | 22¾ | 4.7 | 36.27 | —37.3 |
| Pittsburgh National Corporation | 3.77 | 34⅜ | 9.1 | 4.35 | 20 | 4.6 | 32.91 | —39.2 |
| Republic of Texas Corporation | 2.34 | 29 | 12.4 | 3.31 | 20 | 6.0 | 22.00 | — 9.1 |
| SeaFirst Corporation | 2.10 | 17⅜ | 8.3 | 1.74 | 14½ | 8.3 | 21.25 | —31.8 |
| U. S. Bancorp | 1.55 | 14⅝ | 9.4 | 2.73 | 16⅛ | 5.9 | 18.21 | —11.4 |
| **25 OTHER MAJOR BANKS** | | | | | | | | |
| BanCal Tri-State Corporation | $ 2.56 | 26 | 10.2 | $ 1.59 | 14⅜ | 9.0 | $28.37 | —49.3% |
| Bank of New York Co., Inc. | 4.84 | 45½ | 9.4 | 5.25 | 25⅜ | 4.8 | 37.47 | —32.3 |
| Barnett Banks of Florida, Inc. | 1.56 | 23½ | 15.1 | 2.53 | 17¾ | 7.0 | 17.43 | 1.8 |
| Cameron Financial Corporation | 1.90 | 26 | 13.7 | 2.25 | 9⅝ | 4.3 | 17.02 | —43.4 |
| Centran Corporation | 3.13 | 28½ | 9.1 | 3.51 | 16⅝ | 4.7 | 30.16 | —44.9 |
| Citizens & Southern National Bank, Atl. | 0.90 | 16¼ | 18.1 | 0.92 | 7¾ | 8.4 | 8.41 | — 7.8 |
| First Bank System, Inc. | 2.80 | 30¾ | 11.0 | 3.69 | 30 | 8.1 | 27.39 | 9.5 |
| First City Bancorp. of Texas, Inc. | 1.81 | 21⅛ | 11.7 | 2.67 | 18¾ | 7.0 | 19.56 | — 4.1 |
| First International Bancshares, Inc. | 1.75 | 21⅞ | 12.5 | 2.90 | 32 | 11.0 | 19.25 | 66.2 |
| First National Holding Corp., Atlanta | 1.94 | 21⅛ | 10.9 | 3.30 | 12 | 3.6 | 25.79 | —53.5 |
| Harris Bankcorp, Inc. | 5.89 | 57¼ | 9.7 | 8.43 | 37½ | 4.4 | 65.02 | —42.3 |
| Lincoln First Banks Inc. | 4.38 | 44½ | 9.8 | 3.31 | 15¼ | 4.6 | 39.06 | —61.0 |
| Marine Midland Banks, Inc. | 3.44 | 36 | 10.5 | 3.35 | 15¼ | 4.6 | 33.18 | —54.0 |
| Maryland National Corporation | 1.85 | 27¼ | 14.7 | 2.57 | 13¼ | 5.2 | 17.31 | —23.5 |
| Mercantile Bancorporation Inc. | 3.43 | 32 | 9.3 | 3.61 | 25⅝ | 7.1 | 26.78 | — 4.3 |
| NCNB Corporation | 1.02 | 17¼ | 16.9 | 1.61 | 12⅞ | 8.0 | 11.21 | 14.9 |
| National City Corporation, Cleveland | 2.90 | 28⅝ | 9.9 | 3.64 | 18 | 4.9 | 25.06 | —28.2 |
| Northwest Bancorporation | 3.04 | 35½ | 11.7 | 4.09 | 27¾ | 6.8 | 31.78 | —12.7 |
| Nortrust Corporation | 3.71 | 36⅝ | 9.9 | 4.68 | 26½ | 5.7 | 36.06 | —26.5 |
| Southeast Banking Corporation | 1.50 | 30⅝ | 20.4 | 2.23 | 11⅞ | 5.3 | 15.53 | —23.5 |
| Sun Banks of Florida, Inc. | 1.13 | 23 | 20.4 | 1.82 | 13¾ | 7.6 | 12.92 | 6.4 |
| Texas Commerce Bancshares, Inc. | 1.58 | 15¼ | 9.7 | 2.51 | 23¾ | 9.5 | 16.53 | 43.7 |
| Valley National Bank of Arizona | 1.65 | 26⅛ | 15.8 | 1.72 | 11⅝ | 6.6 | 15.17 | —25.0 |
| Wachovia Corporation | 1.79 | 29 | 16.2 | 2.29 | 13 | 5.7 | 18.66 | —30.3 |
| Western Bancorporation | 3.20 | 37¾ | 11.8 | 3.40 | 14⅜ | 4.2 | 29.90 | —51.9 |

(1) Per Share Income Before Securities Gains (Losses), originally reported and adjusted for stock dividends and splits.
(2) Adjusted for stock dividends and splits.

ABA 1974 National Correspondent Banking Conference
September 8-10, Hyatt Regency, Atlanta, Georgia

JUNE 30, 1974

| | Equity Capital + Bad Debt Reserve / Deposits | Equity Capital + Bad Debt Reserve / Loans | Equity Capital + Bad Debt Reserve + Long Term Debt / Deposits | Equity Capital + Bad Debt Reserve + Long Term Debt / Loans |
|---|---|---|---|---|
| **7 Banks in New York City** | | | | |
| Bankers Trust New York Corporation | 3.9 % | 5.7 % | 5.4 % | 7.9 % |
| Charter New York Corporation | 4.0 | 7.8 | 5.7 | 11.2 |
| Chase Manhattan Corporation | 4.9 | 6.8 | 6.3 | 8.7 |
| Chemical New York Corporation | 5.2 | 7.3 | 7.2 | 10.1 |
| Citicorp | 5.5 | 7.1 | 6.1 | 7.9 |
| Manufacturers Hanover Corporation | 4.6 | 6.3 | 5.8 | 7.9 |
| J. P. Morgan & Co. Incorporated | 6.4 | 9.8 | 8.6 | 13.1 |
| **4 Banks in California** | | | | |
| BankAmerica Corporation | 4.2 % | 6.8 % | 5.4 % | 8.8 % |
| Crocker National Corporation | 4.5 | 6.7 | 5.9 | 8.9 |
| Security Pacific Corporation | 5.6 | 7.8 | 6.8 | 9.5 |
| Wells Fargo & Company | 5.9 | 6.8 | 8.9 | 10.1 |
| **14 Banks in Other Centers** | | | | |
| CleveTrust Corporation | 12.6 % | 17.2 % | 12.6 % | 17.2 % |
| Continental Illinois Corporation | 6.3 | 7.4 | 7.0 | 8.2 |
| Detroitbank Corporation | 8.9 | 12.2 | 8.9 | 12.2 |
| First Chicago Corporation | 6.3 | 7.6 | 8.0 | 9.7 |
| First National Boston Corporation | 7.1 | 11.0 | 11.3 | 17.4 |
| First Pennsylvania Corporation | 8.3 | 8.1 | 13.1 | 12.7 |
| Girard Company | 6.2 | 8.6 | 8.5 | 11.9 |
| Mellon National Corporation | 8.6 | 14.3 | 10.3 | 17.1 |
| National Detroit Corporation | 6.9 | 12.5 | 8.5 | 15.3 |
| Philadelphia National Corporation | 7.3 | 9.2 | 9.7 | 12.3 |
| Pittsburgh National Corporation | 10.7 | 14.5 | 10.7 | 14.5 |
| Republic of Texas Corporation | 7.6 | 10.8 | 7.8 | 11.1 |
| SeaFirst Corporation | 7.4 | 9.9 | 7.4 | 9.9 |
| U. S. Bancorp | 8.3 | 10.5 | 10.7 | 13.6 |
| **25 OTHER MAJOR BANKS** | | | | |
| BanCal Tri-State Corporation | 5.1 % | 6.5 % | 6.5 % | 8.3 % |
| Bank of New York Co., Inc. | 7.2 | 12.1 | 9.3 | 15.5 |
| Barnett Banks of Florida, Inc. | 8.6 | 12.6 | 10.4 | 15.1 |
| Cameron Financial Corporation | 8.3 | 9.4 | 15.9 | 18.1 |
| Centran Corporation | 7.8 | 10.4 | 10.5 | 14.1 |
| Citizens & Southern National Bank, Atl. | 11.0 | 11.0 | 12.0 | 11.9 |
| First Bank System, Inc. | 9.3 | 11.4 | 10.7 | 13.1 |
| First City Bancorp. of Texas, Inc. | 6.5 | 10.9 | 9.2 | 15.3 |
| First International Bancshares, Inc. | 7.4 | 12.8 | 7.9 | 13.9 |
| First National Holding Corp., Atlanta | 8.9 | 9.2 | 11.9 | 12.3 |
| Harris Bankcorp, Inc. | 7.6 | 12.6 | 10.0 | 16.5 |
| Lincoln First Banks Inc. | 6.9 | 10.2 | 10.0 | 14.8 |
| Marine Midland Banks, Inc. | 4.4 | 7.4 | 6.7 | 11.2 |
| Maryland National Corporation | 9.8 | 10.7 | 9.8 | 10.7 |
| Mercantile Bancorporation Inc. | 10.6 | 14.8 | 14.7 | 20.4 |
| NCNB Corporation | 7.8 | 9.2 | 14.6 | 17.2 |
| National City Corporation, Cleveland | 12.6 | 18.6 | 12.6 | 18.6 |
| Northwest Bancorporation | 8.5 | 10.6 | 11.1 | 13.8 |
| Nortrust Corporation | 6.5 | 13.0 | 7.4 | 14.9 |
| Southeast Banking Corporation | 8.2 | 12.2 | 12.5 | 18.5 |
| Sun Banks of Florida, Inc. | 10.0 | 15.9 | 12.7 | 20.2 |
| Texas Commerce Bancshares, Inc. | 7.8 | 10.0 | 7.8 | 10.0 |
| Valley National Bank of Arizona | 6.6 | 8.6 | 8.4 | 10.8 |
| Wachovia Corporation | 11.9 | 12.5 | 19.7 | 20.6 |
| Western Bancorporation | 5.9 | 8.1 | 7.7 | 10.7 |

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/12

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: September 23, 1974

FROM: Ernest Stern, Director, Development Policy



SUBJECT: Developments in the Sugar Market

You will be interested in the attached description of developments in the sugar market. It is an interesting response to major changes in the marketing arrangements for a primary commodity, at present in short supply. Not only are the long-term contracts an attempt to assure supplies but also to provide some price stability to both parties. This approach may be an alternative to the much more complex multilateral negotiations often proposed, particularly if information on the contracts can be made available to others.

9/23

EStern:mf

INTERNATIONAL DEVELOF NT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. E. Stern

DATE: September 19, 1974

FROM: Wouter Tims

SUBJECT: Increasing Signs of Bilateral Sugar Agreements



1. Historically the bulk of LDC exports in sugar have moved under preferential arrangements (for example, the United States Sugar Act and the Commonwealth Sugar Agreement) and about a third have moved under free market conditions. Even this was subject to regulation under the International Sugar Agreement which lapsed at the end of 1973. In view of the very tight market situation and uncertainties surrounding the immediate future, there is little chance of another International Agreement being negotiated. The US Sugar Act is due to lapse at the end of this year and the chances are that it will not be replaced in its present form. The Commonwealth Sugar Agreement expires on December 31, 1974, it is a little too early to conjecture on its future. However, there are increasing signs that long-term bilateral contracts may be substituting for multilateral agreements. Growing interest in this form of contracting reflects the concern about assurance of uninterrupted supplies. Importing countries also wish to know the rough level of prices which they may be paying for these commodities.

2. Some examples of recent long-term contracts in sugar are given below. We are keeping a close watch on these developments and will report to you if they become a general rule.

3. Thailand. Under a long-term agreement, Thailand has committed to sell 300,000 m. tons annually for a period of six years beginning in 1974 to two foreign countries. These are probably Japan and Malaysia. (Reuter's report of November 14, 1973).

4. Australia/China Sugar Deal. The Chinese government has agreed to purchase from Australia up to 300,000 tons of sugar annually for a three to five year period beginning in 1975. (Reuter's report of November14,1973).

5. Japan/Australia Sugar Deal. Japan is seeking a long-term sugar contract with Australia. No quantities or prices have been suggested.

6. Australia/New Zealand Agreement. New Zealand has concluded an agreement for purchase of Australian sugar covering a period of five years or more. It is reported that a similar agreement has been entered into between New Zealand and Fiji. The terms of the agreements remain confidential. (Queensland Cane Growers Report of June 4, 1974).

7. Jamaica/China Sugar Pact. Jamaica is negotiating a five year sugar agreement with the Peoples Republic of China. This will involve a shipment of 10,000 tons in 1974, 40,000 in 1975 and 60,000 tons in each of the following three years. The price has not yet been determined but, in principle, China has accepted the premise that the terms of trade of Jamaica will not be disadvantageous and a recovery of cost of production will be guaranteed. (The Journal of Commerce, July 2, 1974).

8. <u>Australia/S. Korea Sugar Deal.</u> Australia negotiated an agreement for the supply of at least 1 m. tonnes of raw sugar to South Korea over five years beginning January 1975. No details on prices were announced. Beside the 1 m. tonnes minimum, the agreement provides for the supply of additional raw sugar if required by Korea and available from Australia, and for extension of the agreement beyond the initial five years. (The Financial Times, September 3, 1974).

9. <u>Australia/Malaysia Sugar Deal.</u> Australia signed a long term agreement to supply sugar to Malaysia at a price that is believed to be far below the current world market price. Under the contract Australia guarantees to supply at least 1.65 m. tonnes to Malaysia during the period 1975 to 1980. The agreement also provides for sales above the specified minimum and for extension beyond 1980 as in a similar agreement signed with South Korea earlier this year. (The Financial Times, September 6, 1974).

10. <u>Brazil/China Sugar Deal.</u> Brazil concluded trade talks with a Chinese mission which recently visited Brasilia. Included in the trade agreement which resulted, was 200,000 tons of sugar annually for 3 to 5 years to be supplied by Brazil. Details and the actual sale of these sugars under such agreement remains to be finalized at some future date. (Weekly Statistical Sugar Trade Journal, September 12, 1974).

You are, of course, aware that Cuba has been supplying sugar to the USSR under long-term contracts for several years now.

E.B. SS
EBrook/SSingh/WTims:tl

cc: Mr. Chenery

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

A

# OFFICE MEMORANDUM

811/6/11

TO: Mr. Robert S. McNamara, President

DATE: September 23, 1974

CONFIDENTIAL

FROM: Ernest Stern, Director, Development Policy



SUBJECT: Private Capital Flows to LDCs

Attached is a draft Treasury sent over as a basis for the meeting which I mentioned on Friday. It seems to me they have some of the right questions in mind and it should not prove too difficult to put these issues in a dynamic context - i.e. what is the future demand on these markets, how can it be met and at what levels of risk.

9/24

Attachment: Draft

EStern:mf

Study of Private Capital Flows to LDCs



One of the first tasks of the Ministerial Committee should be a study of how well the private financial institutions are serving the capital needs of the developing countries, and what improvements might be made toward that end. An increasing number of LDCs have gained access to the international capital market in recent years, and, as shown in the accompanying table, the flow has grown at an extraordinary pace. The share of known private capital in total flows to LDCs rose from 28 percent in 1962 to 48 percent in 1972, and substantially more than half in 1973. Since our data are fragmentary, the above figures may understate substantially the extent and growth of the private flows.

There have been many assertions regarding how well the private financial system is managing the difficult problem of recycling the reserve accumulations of the oil-producing nations. Descriptions range from "smooth sailing" to "brink of collapse." Even before the oil crisis, there was an implicit,unjoined debate between those advocating increasing LDC reliance on private capital, and those who worried about the debt burden implications of the increasing recourse to the Euromarket. The fact is that the hard information presently available does not provide sufficient basis for sound analysis.

The study we have in mind would make a comprehensive analysis of LDC participaton in the world financial markets. Among the topics to be explored would be the following:

A. What are the financial dimensions of current private capital flows to the LDCs? What kinds of data and data collection machinery are needed to adequately monitor these flows for policymaking purposes?

1. How much capital is currently moving through the private system to the LDCs?
2. To which countries?
3. On what terms?
4. By what routes (private placements, bond sales, brokers, IDLIs, etc.)?
5. What are the key variables that affect the availability of capital to a country, and the terms? What criteria are being applied by the lenders?
6. Is there a pattern to the kinds of projects private capital, portfolio and direct, associate with?
7. To what extent are private borrowers in LDCs gaining access to international financing?
8. What explains the changes in the above dimensions in the past two years?
9. What has been the impact on LDC debt structures and debt service capacity, and what determines their absorbtive capacity for further debt accumulation?

10. How do loan terms available in the international markets compare with terms available to the borrower domestically? If there is a gap, how is it maintained and what is its impact on domestic investment and on the balance of payments?

B. What are the structural dimensions of the private capital flows to the LDCs?

1. What kinds of lending institutions are participating (type, size, location, foreign branches, etc.)?
2. What kinds of borrowers are participating (business, public vs. private, size, location, foreign affiliations or trade, etc.)?
3. What lending potential do the current non-participants represent?
4. What institutional barriers exist in the lending countries (statutory, regulatory, management policy, inadequate information, etc.)?
5. What institutional barriers exist in the borrowing countries?

C. What institutional and policy innovations in DCs and LDCs are worthy of further exploration as a means of improving the functioning of private international capital markets for development purposes?

1. Macroeconomic policy changes.

2. Modification of laws and regulations.
3. Education and improvement of information.
4. Association of public and private lending, both bilateral and multilateral.
5. Improvements in LDC debt management.
6. Risk pooling and other mechanisms for joint improvement of creditworthiness among associated States - e.g., CACM.

Borrowing by Developing Countries in Private Capital Markets, 1971-73
(figures in $US millions)

| Latin American Countries | National Bond Markets | | | International Bond Issues | | | Changes in Net U.S. Bank Claims (End-Year) | | | Euro-Market | | | Total Borrowings | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Higher Income | 1971 | 1972 | 1973 | 1971 | 1972 | 1973 | 1970-71 | 1971-72 | 1972-73 | 1971 | 1972 | 1973 | 1971 | 1972 | 1973 |
| Argentina | - | - | - | - | - | - | -12 | +30 | -16 | 50.0 | 236.0 | 87.3 | 38.0 | 266.0 | 71.3 |
| Bahamas | - | - | - | - | - | - | - 3 | +15 | + 2 | - | - | - | -3.0 | 15.0 | 2.0 |
| Brazil | 6.0 | - | 35.7 | - | 121.0 | 25.0 | +80 | +251 | +67 | 212.0 | 577.4 | 789.0 | 298.0 | 949.4 | 916.7 |
| Chile | - | - | - | - | - | - | +9 | +83 | -38 | - | - | - | 9.0 | 83.0 | -38.0 |
| Colombia | - | - | - | - | - | 45.0 | +21 | +28 | -21 | - | 90.0 | 115.0 | 21.0 | 118.0 | 139.0 |
| Costa Rica | 6.8 | - | - | - | - | - | n.a. | n.a. | n.a. | - | - | 11.0 | 6.8 | - | 11.0 |
| Dominican Republic | - | - | - | - | - | - | n.a. | n.a. | n.a. | - | 4.0 | 15.0 | - | 4.0 | 15.0 |
| Guyana | - | - | - | - | - | - | n.a. | n.a. | n.a. | - | - | 12.5 | - | - | 12.5 |
| Jamaica | - | - | - | - | 10.0 | 14.0 | n.a. | n.a. | n.a. | - | - | 35.6 | - | 10.0 | 49.6 |
| Mexico | 20.0 | 96.5 | 136.4 | 30.0 | 80.0 | 61.0 | +5 | +13 | +59 | 140.0 | 490.4 | 1,247.5 | 195.0 | 679.9 | 1,503.9 |
| Netherlands Antilles | 17.4 | - | - | - | - | - | -4 | +3 | -1 | - | - | - | 13.0 | 3.0 | -1.0 |
| Nicaragua | - | - | - | - | - | 10.0 | n.a. | n.a. | n.a. | 10.0 | 15.0 | 102.0 | 10.0 | 15.0 | 112.0 |
| Panama | - | 20.0 | - | 16.0 | 20.0 | - | -9 | +22 | +5 | 16.0 | 40.0 | 251.0 | 23.0 | 102.0 | 256.0 |
| Peru | - | - | - | - | - | - | -32 | +35 | -12 | - | 210.0 | 633.6 | -32.0 | 245.0 | 621.6 |
| Trinidad and Tobago | - | - | - | - | - | - | n.a. | n.a. | n.a. | - | - | 38.0 | - | - | 38.0 |
| Uruguay | - | - | - | - | - | - | +4 | -13 | -4 | - | - | - | 4.0 | -13.0 | -4.0 |
| Venezuela | - | - | - | - | 39.8 | 7.5 | +69 | +46 | +26 | 78.3 | 258.5 | 48.0 | 147.3 | 344.3 | 81.5 |
| Lower Income | | | | | | | | | | | | | | | |
| Bolivia | - | - | - | - | - | - | n.a. | n.a. | n.a. | - | - | 6.0 | - | - | 6.0 |
| Haiti | - | - | - | - | - | - | n.a. | n.a. | n.a. | - | - | 10.0 | - | - | 10.0 |
| Total | 50.2 | 116.5 | 172.1 | 46.0 | 270.8 | 162.5 | +133 1/ | +544 1/ | +60 1/ | 506.3 | 1,921.3 | 3,401.5 | 735.5 1/ | 2,852.6 1/ | 3,796. |

1/ Total differs from the sum of the country entries due to addition of a figure (not shown) for "Other Latin America" in the columns relating to U.S. bank claims.

Sources: IBRD Report of March 5, 1974 and Treasury Bulletin; April 1974 issue; Table CM-II-5

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

Mr. ~~Robert~~ S. McNamara
819/6/10

TO: Members, President's Council

DATE: September 23, 1974

FROM: Ernest Stern, ES Director, Development Policy

SUBJECT: Oil Prices



Attached, for your information is the table prepared by EAPD, which Mr. McNamara referred to this morning. The principal features are:

- the essential stability of prices at our projected figure at $9.60 per barrel

- the decline in spot prices

The difference between the IBRD January and July estimate is essentially due to changes in participation agreements. Our price estimates in July (see p. 2) foresaw a decline in real terms since we assumed no change in nominal prices in either 1974 or 1975. However, the recent OPEC meeting suggested that nominal prices might be increased in January 1975 to keep pace with inflation.

Attachment:Table

EStern:mf

CRUDE OIL PRICE ESTIMATES (FOB PERSIAN GULF)

| Price Formation / Crude Type and Period | 1974 Saudi Arabian Light ($/bbl) | | | | Iranian Light ($/bbl) | | | | Kuwait ($/bbl) | | | | Average 1974 Price Projected: ($/bbl) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Mar. | June | Current | Jan. | Mar. | June | Current | Jan. | Mar. | June | Current | Jan. | July |
| Posted Price | 11.651 | 11.651 | 11.651 | 11.651 | 11.875 | 11.875 | 11.875 | 11.875 | 11.545 | 11.545 | 11.545 | 11.545 | 11.651 | 11.651 |
| Equity Oil "Take" | 7.00 | 7.00 | 7.00 | 7.00 | 7.14 | 7.14 | 7.25/1 | 7.58/2 | 6.96 | 6.96 | 7.07/1 | 7.40/2 | 7.00 | 7.00 |
| Tax Paid Cost | 7.11 | 7.11 | 7.11 | 7.11 | 7.25 | 7.25 | 7.36 | 7.69 | 7.03 | 7.03 | 7.13 | 7.46 | 7.11 | 7.11 |
| Derived Equity Oil Price | 7.70 | 7.70 | 7.70 | 7.70 | 7.85 | 7.85 | 7.96 | 8.29 | 7.63 | 7.63 | 7.73 | 8.06 | 7.65 | 7.70 |
| Buy-Back Oil Price | 10.84 | 10.84 | 10.84 | 11.04/3 | 11.04 | 11.04 | 11.04 | 11.15/4 | 10.74 | 10.74 | 10.74 | 10.85/5 | 10.84 | 10.84 |
| - % of Posted Price | 93 | 93 | 93 | 94.8 | 93 | 93 | 93 | 94 | 93 | 93 | 93 | 94 | | |
| Spot Price | 15.00 | 11.25 | 10.00 | 9.80 | 17.00 | 13.20 | 10.40 | 9.80 | -/7 | 10.74 | 10.95 | 10.95 | 15.00 | 10.00 |
| Average Estimated Market Price (FOB P.G.) | 9.71/8 | 9.60/8 | 9.56 | 9.66 | 10.47 | 10.02 | 9.73 | 9.84 | 9.50 | 9.50 | 9.57 | 9.75 | 8.65/9 | 9.60 |
| Memo Items: | | | | | | | | | | | | | | |
| Buy-Back Oil as % of Total | 57 | 57 | 57 | 57 | 48 | 48 | 48 | 48 | 60 | 45 | 45 | 45 | 20 | 55 |
| Government Sales as % of Total/10 | 3 | 3 | 3 | 3 | 12 | 12 | 12 | 12 | - | 15 | 15 | 15 | 5 | 5 |

/1 Reflects two percentage points increase in royalties, following OPEC Meeting in June.

/2 Income tax charges increased 33¢/bbl after September OPEC Meeting.

/3 Buy-Back price for Saudi Arabian oil, was set at 94.8% of posted price, at the September OPEC Meeting.

/4 Iran would increase buy-back prices by the increase in royalty charges (11¢/bbl., for Iranian light).

/5 Kuwait reported to demand 94% of posted price on future sales of buy-back oil.

/6 Prices quoted for spot sales of government oil.

/7 No sales of government oil reported in January.

/8 January and March prices reflect June Participation Agreement between Aramco and Saudi Arabia, whose effect was applied retroactively.

/9 IBRD January projection of Saudi Arabian light price, was based on the Participation Agreement outstanding at that time (see Memo Item below).

/10 Sale of oil by state companies consist of sales at auction and long run sales (including government to government supply agreements); the latter have not necessarily been made at spot prices. From January-August sales by state companies were as follows: (in thousand barrels daily); Iran 720, Saudi Arabia 205, and Kuwait 462.

Note: A. ugh Iran holds 100% ownership of production, its pricing policy has been pe. . to that of the Persian Gulf producers.

IBRD PROJECTIONS

AVERAGE CRUDE OIL PRICE ($/bbl)
SAUDI ARABIAN LIGHT (FOB RAS TANURA)

Projected in:

| | January | | July | |
|---|---|---|---|---|
| | Constant 1974 US$ | Current US$ | Constant US$ | Current US$ |
| Projected for: | | | | |
| 1974 | 8.65 | 8.65 | 9.60 | 9.60 |
| 1975 | 8.65 | 9.60 | 8.65 | 9.60 |
| 1980 | | | | |
| a) high | 9.75 | 15.50 | 8.65 | 13.75 |
| b) low | 7.65 | 12.16 | 7.00 | 11.12 |

819/6/9

Mr. Robert S. McNamara, President September 20, 1974

Ernest Stern, Director, Development Policy



Group of Twenty-Four Meeting

1. As you know, the Group of Twenty-Four Deputies will meet on Saturday, September 28 at 9.00 am to be followed by a meeting of the Ministers at 5.00 pm. You have been invited to attend. The Chairman of the Deputies also sent me an invitation which seems to cover both meetings.

2. The agenda items for both meetings are identical:

(1) Joint Fund-Bank Ministerial Committee and Related Topics.

(2) Immediate Steps: Amendments to Fund's Articles of Agreement.

(3) Review of World Economic Outlook.

(4) Other Business.

3. There is no need, it seems to me, for you to accept the invitation given the other demands on your time during the Annual Meeting. Moreover, it would be wise to avoid giving the impression of lobbying on agenda item 1. The attached draft response declines the invitation. However, should Mr. Witteveen decide to attend (Anders is checking this) it would be desirable for you to attend as well.

Attachment:

cc: Mr. P.N. Damry

EStern:gss

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/8

# OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

DATE: September 17, 1974

FROM: Ernest Stern ES

SUBJECT: Financial Development Issues Paper



The financial development issues paper (copy attached) was reviewed at the PRC staff level at the end of June. At the meeting there was general agreement that the relevant issues had been well defined; however, there were wide differences of view on what follow-up was necessary and desirable (Minutes of the meeting are also attached). Since the meeting, there have been discussions between the interested parties in DPS, CPS and IFC in trying to reach a common view on how to proceed. The issues paper itself had proposed a follow-up in the form of policy papers on three topics: lending rate practices of the Bank; financial institutions; and, adapting financial systems to reach the poorest.

(i) On-Lending. On the on-lending rate question, it was agreed at the meeting that it might be useful to have a paper reviewing the Bank's practice over the last few years; the paper would be purely factual and descriptive. A first draft of such a paper is now being reviewed. According to the latest Inventory (as of September 1), this would be distributed to PRC staff level in mid-September; however, we will decide on the appropriate audience for the paper in reviewing the current draft. The suggestion was also made at the meeting that it would be useful to have a paper on indexing of loans. Work is being done on this in ECD, and a seminar is being held on this subject on Friday, September 20.

(ii) Adapting Financial Systems to Reach the Poorest. On this question, the general sentiment was that it would be premature to think of a policy paper since further data collection and research was needed in a number of key areas, such as the working of informal credit markets.

(iii) Financial Institutions. The area where there seemed to be least agreement at the staff review was on what work was necessary on the question of the Bank's approach to financial institutions. There are those who feel that the Bank's approach through DFCs, agricultural credit organizations and IFC's Capital Markets Department is too fragmented, and, as a result, our approach may not always be consistent. In addition, differences in our overall practice and approach are creeping in which are not justified by differences in country circumstances. This view is not unanimously shared. IFC's Capital Markets Department is, therefore, preparing a list of the sort of institutional questions which are coming up in operations with a view to identifying the problem areas. When this work has been done, we will be in a position to decide on the next step. If substantive questions are involved, a paper will be prepared under the aegis of IFC's Capital Markets Department and with support from the other interested parties in the Bank.

For the time being, however, no papers will be shown on the Inventory other than the item on on-lending where we will take a decision shortly. Following our standard procedures for policy and issues papers, if a paper is to be prepared on financial institutions, we will send an outline of the paper, identifying the key issues and indicating the schedule and staff arrangements to you for approval before it is included in the Inventory.

Cleared with and cc: Mr. Gill (IFC)
cc: Mr. Knapp
Mr. van der Tak
Mr. Gulhati
Mr. Gustafson
Mr. Haq
Mr. Yenal
Mr. Vibert

FV/lmh

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/7

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: September 16, 1974

CONFIDENTIAL

FROM: Ernest Stern, Director, Development Policy



SUBJECT: Status Report on IMF Special Oil Facility

1. Availability

As of September 9, seven countries have made a total of SDR 2.8 billion available to the Special Facility as follows:

9/17

| | (millions SDRs) |
|---|---|
| Abu Dhabi | 100 |
| Canada | 257.3* |
| Iran | 580 |
| Kuwait | 400 |
| Oman | 20 |
| Saudi Arabia | 1,000 |
| Venezuela | 450 |
| | 2,807.3 |

* Canadian $300 million converted into SDRs as of 9/6/74. The US dollar/SDR conversion rate varies daily. However, to obtain approximate amounts in US dollars increase the SDR amounts shown by 20%.

2. Present and Planned Use

The Special Oil Facility has been active since August 9, 1974. In its first month of operation 18 drawings have been approved; 17 were from developing countries and one from Italy. The approved drawings total SDR 459 million, of which the Italian drawing accounts for SDR 262.5 million. Further requests for drawings totalling SDR 92.6 million are pending. The approved and pending requests of the developing countries, by country income levels, is shown below.

Approved and Pending Drawings on the Special Oil Facility by Developing Countries, as of September 9, 1974

(in millions of SDRs)

| | | |
|---|---|---|
| Per Capita Income below $200 | | 102.75 |
| Bangladesh | 12.43 | |
| Chad * | 1.11 | |
| Cameroon | 4.62 | |
| Central African Republic | 0.63 | |
| Guinea | 3.51 | |
| Haiti | 1.15 | |
| Kenya | 9.21 | |
| Malagasy Republic | 3.45 | |
| Pakistan | 30.61 | |
| Sierra Leone * | 4.32 | |
| Sri Lanka | 11.00 | |
| Sudan | 9.41 | |
| Tanzania | 6.32 | |
| Uganda * | 4.98 | |
| Per Capita Income $201 - $500 | | 38.09 |
| Fiji * | 0.34 | |
| Ivory Coast | 11.17 | |
| Korea | 21.00 | |
| Liberia * | 5.58 | |

| | | |
|---|---|---|
| <u>Per Capita Income $501 - $1,000</u> | | 111.76 |
| Chile | 41.47 | |
| Costa Rica | 5.36 | |
| Panama | 7.37 | |
| Uruguay | 17.56 | |
| Yugoslavia * | 40.00 | |
| Total | | 252.60 |

(* Request pending)

3. <u>Other Developments</u>

The IMF staff has reviewed the likelihood of individual countries drawing on the Special Facility in 1974. Based on that review the Fund Board will consider, prior to the Annual Meeting, various options to increase the access to the Facility allowed to those countries likely to require assistance in 1974. Depending on the option chosen the access available to the developing countries may range from SDR 100 million to SDR 1 billion.

cc: President's Council
Chief Economists

EStern:gss

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/6

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: September 16, 1974

FROM: Ernest Stern, Director, Development Policy

SUBJECT: Commitments Under the UN Emergency Operation



1. The attached brings up-to-date the status of contributions to the MSAs reported to the UN Emergency Operation. As of August 15, we reported $1,073.04 million (also attached).

2. Information on the new commitments has been obtained from Mr. Dell's office. In addition to those reported to the UNEO, some of the OPEC countries have made commitments to the MSAs. To the extent we have knowledge of these, they are reflected in the P & B report on Bilateral Financial Assistance from Oil-Exporting Nations of September 5, 1974.

9/17

3. The $47.5 million reported for the United Kingdom is based on their response to UNEO questionnaire.

4. The EEC Committee met on September 11, 1974 and agreed to recommend to the Ministers a release of $150 million in 1974. Of this amount, 25 percent is expected to be channelled through the UN Special Account. The Ministers meet on September 24 and a favorable decision is expected.

Attachments

cc: Messrs. Knapp, Cargill, Clark, Hoffman

EStern/ag

Commitments Under the UN Emergency Operation
to Assist the Most Seriously Affected Countries
as of September 16, 1974

| Donor | Amount (in mil US$) | Assistance Direct | Assistance Through UNEO | Comments |
|---|---|---|---|---|
| 1. Commitments reported as of August 15, 1974 | 1,073.04 | | | |
| 2. New commitments | | | | |
| Denmark | 7.5 | X | | Additional to share in EEC commitment. |
| New Zealand | 5.0 | | X | To FAO fertilizer pool if others also contribute. |
| Qatar | 14.0 | X | | |
| United Kingdom | 47.5 | X | | |
| Arab Fund for Economic & Social Dev. | 80.0 | X | | For non-oil producing and needy Arab countries. |
| Total of New Commitments | 154.0 | | | |
| GRAND TOTAL | 1,227.04 | | | |

## Commitment Under the UN Emergency Operation to Assist the Most Seriously Affected Countries as of August 15, 1974

| Donor | Amount (in million US$) | Assistance: Direct | Assistance: Through UNEO | Comments |
|---|---|---|---|---|
| **Algeria** | **20** | | ✓ | Probably grants. |
| **Austria** | **15** | ✓ | | Subject to Parliamentary approval. |
| **Canada** | **100** | ✓ | | Principally food and fertilizer. $67 for Asia (of which 45 food). $32 for Africa (food and famine relief). Terms not known. |
| **EEC** | **500** | ✓ | | Amount not to exceed 500 or 1/6 of combined pledges by others. "Assumed" other industrialized countries would contribute 2/6 and OPEC 3/6. A portion may be contributed through UNEO; allocation to be based on UNEO Criteria. |
| **Finland** | **10** | ✓ | | IDA terms. |
| **Iceland** | **0.04** | | ✓ | |
| **Iran** | **150** | | | Tentative. Bilateral commitments to MSAs with more than 25% grant element probably exceed 700. This would be additional. |
| **Japan** | **100** | ✓ | | Commodity loans, debt relief, grants. Additional contribution of up to 100 possible |
| **Netherlands** | **30** | ✓ | | About 20 represents additional resources; 10 is to be reprogrammed from non-MSA recipients. Terms not known |
| **Norway** | **24** | ✓ | | 10 subject to Parliamentary approval; 14 for Sahel relief direct and through UN; contribution to FAO fertilizer pool. Mostly grants. |
| Sweden | 20 | ✓ | | Grants or IDA-type credits. |
| Switzerland | **4** | ✓ | | Subject to Parliamentary approval. Terms not known. |
| Venezuela | 100 | ✓ | ✓ | In two installments. 80 through UNEO; 20 bilateral. |
| | 1,073.04 | | | |

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# OFFICE MEMORANDUM

819/6/5

**TO:** Mr. Robert S. McNamara, President **DATE:** September 16, 1974

**FROM:** Ernest Stern, Director, Development Policy

**SUBJECT:** Bank Financing of LDC Capital Good Exports



1. Attached is a paper on Bank financing or guaranteeing export credits for developing countries, prepared by the Policy Planning and Program Review Department. You will recall that a proposal was made by the Governor of Israel at the 1972 Annual Meeting. Our preliminary conclusions were discussed with him in Nairobi last year and a fuller study promised. On a number of occasions the matter has been raised in the Board and a paper has been promised.

2. The attached draft has been reviewed by Messrs. Knapp, Cargill and Chenery and their comments have been incorporated. Given the essentially negative conclusions it seemed best to circulate the paper for information and schedule a discussion only on request. I believe that LDC interest is strong enough so that a discussion will be requested. The draft cover memorandum has been drafted on that basis.

3. The UNCTAD Trade and Development Board has just voted to convene an expert group on the subject and to invite the Bank to participate. Several Latin American countries, Israel and Yugoslavia were very active in this debate. Since the matter is likely to be raised formally and/or privately at the Annual Meeting it would be desirable to circulate the paper to the Board before then.

4. The paper consists of the basic document and four annexes. There are also six country annexes but I would propose that they would be neither distributed nor referred to. They are useful background data but, since they report on different views held within each country they are likely to lead to unnecessary controversy.

cc: Messrs. J. Burke Knapp
M. Haq

EStern:gss

DRAFT

FROM: Robert S. McNamara

MEMORANDUM TO THE EXECUTIVE DIRECTORS

The problem of financing capital goods exports from developing countries has repeatedly been raised at the Annual Meetings and the Bank has been urged to study possibilities of providing assistance in this field. The Bank prepared a number of staff studies in 1967, 1968 and 1971, to analyze the nature and dimensions of this problem. The attached staff study was undertaken as a response to the revival of interest in this subject in the 1972 Annual Meeting.

The present staff study analyzes, in more concrete fashion than had been done in earlier studies, the nature of the financial requirements and the range of possible alternatives for Bank action. It concludes that:

(a) Capital goods exports of the developing countries can be facilitated by the provision of fairly modest amounts of export credit financing.

(b) The major role in providing this kind of finance can, and should, be played by the strengthening of national export credit agencies and by the initiatives of the regional banks with the support of their member governments.

(c) The Bank Group can play only a limited role in meeting the needs of export credit financing because of the difficulties related to evaluating the use of the loan proceeds, the limitations placed on its guarantee powers in the Articles of Agreement, and the claim of other high-priority projects and programs on its limited financial and staff resources.

(d) The Bank Group could assist by:

(i) Providing financing for national export credit agencies under exceptional circumstances where it is the considered judgment of the country concerned and the Bank that this would constitute high priority use of Bank Group funds;

and

(ii) Making a callable contribution to the secondary reserves of an international or regional export credit insurance scheme, should it become apparent that financial or promotional support by the World Bank (along with the regional banks) would be a useful and necessary catalyst for the realization of such a scheme.

The matter of export financing and export credit guarantees is under study in UNCTAD and recent discussions relating to it have been held in the UNCTAD Trade and Development Board and in ECAFE. Should the Directors wish a Board discussion can be scheduled at a convenient time.

ROBERT S. McNAMARA

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/4

# OFFICE MEMORANDUM

TO: Files

DATE: September 11, 1973

CONFIDENTIAL



FROM: Ernest Stern, Director, Development Policy

SUBJECT: Establishment of a Ministerial Committee on the Transfer of Real Resources

1. I met in Bonn on September 4 with the following:

Miss Felder, Ministry of Finance

Mr. Westphalen, Ministry of Finance

Mr. Strumpel, Ministry of Economics

Mr. van Setten, Ministry of Foreign Affairs

Mr. Schulz, Ministry of Economic Cooperation

Mr. Stieler, Ministry of Economic Cooperation

Mr. Janssen, Executive Director, IBRD

2. The discussion was led primarily by Mr. Schulz and the principal points which emerged were:

(1) In general they supported the Draft Resolution put forward by the Bank and Fund. In particular, the organizational structure and the relationship of the Committee to the Bank and the Fund.

(2) They disagreed with the Terms of Reference, particularly items 3 and 4. These were also the items which the UK objected to. It was pointed out that, according to the documentation, the Terms of Reference did not represent a Ministerial decision but were incorporated in the Annexes which contained material on which full agreement had not yet been reached.

(3) They approved of the provision for review after a two-year period.

(4) They stressed that they wish to support the Bank, not weaken it. While major structural problems lay ahead, such as the increase in capital subscription, and a broadening of membership, these could be taken care of within the existing structure of the Bank and would not require a new committee.

3. The enthusiasm of the FRG for this committee is decidely limited. They are clearly concerned this is a back-door approach to the establishment of a new and possibly broad gauged institution. They seem to have the anomalies well identified but they are mystified, as are the others, by the US position. They feel that the developing countries are very unrealistic in their expectations of what the committee can accomplish; are due to be disappointed, and that therefore the committee may end up as a forum for confrontation.

4. Germany has urged that there should be a DAC consultation but their efforts thus far have failed and none is now likely to take place before the Board discussions in the Bank or the Fund. A consultation within EEC had also been planned but had not yet taken place.

5. I urged them that they focus not only on the Draft Resolution, but also on the items for the initial Work Program and on the selection of the Executive Secretary. No work had been started on either subject.

cc: Messrs. Robert S. McNamara
J. Burke Knapp
I.P.M. Cargill
Sir Denis Rickett

ES:gss

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/16/3

# OFFICE MEMORANDUM

TO: Files

DATE: September 11, 1974

FROM: Ernest Stern, Director, Development Policy

~~CONFIDENTIAL~~



SUBJECT: Establishment of a Ministerial Committee on the Transfer of Real Resources

1. On Thursday, September 5, I visited the French Finance Ministry to discuss the Draft Resolution.

2. It was clear that the French Government had not yet devoted much attention to this issue. Essentially, they agree with the draft resolution put forward by the Bank and the Fund. They made it clear, however, that they had not favored the establishment of this committee and still did not do so. They stressed that a close link with the Bank and Fund was essential as well as full participation in the work of the committee by the Managing Director and the President. I mentioned the suggestions for Executive Secretary which had been made in London, Mr. Bruce and Arthur Brown. They seemed favorably disposed to Arthur Brown, whom they hold in high regard, but were rather more dubious whether Mr. Bryce would be an appropriate choice. They stressed that the Executive Directors were Governmental representatives and should be full participants in the work of the committee.

3. They refused to be drawn into discussion about a possible work program, noting that that should be left to those who wish to establish the committee. However, in their view few subjects would make sense outside of the link. For example, France would oppose the discussions of aid targets, bilateral flows or any other matters which properly belong to the DAC or to the discretion of national Governments.

cc: Messrs. Robert S. McNamara
J. Burke Knapp
I.P.M. Cargill
Sir Denis Rickett

ES:gss

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

819/6/2

# OFFICE MEMORANDUM

TO: Files

DATE: September 11, 1974



CONFIDENTIAL

FROM: Ernest Stern, Director, Development Policy

SUBJECT: Establishment of a Ministerial Committee on the Transfer of Real Resources

1. I met September 3 in London with Douglas Williams, Overseas Development Ministry, Mr. Paton, Bank of England, and Mr. Burgner, Treasury, to discuss their reaction to our draft resolution and to the changes which the United States Government had in mind. At this point the second Simon letter had not been distributed. The principle points which emerged from this meeting were that there was essentially agreement with out draft resolution in terms of its relationship between the two institutions, its involvement of the Executive Directors and the advisory nature of the committee. However, there was objection to items 3 and 4 in the terms of reference. Commodity prices are a particularly thorny subject and has been under discussion for a long period of time. It was unlikely that discussions in this committee would yield results. In any event the item would only make sense if oil prices could also be included and that was unlikely. A discussion of access to capital markets was seen merely as a ploy by those countries who already have borrowed extensively in the Euro-currency market to continue their borrowing even though their creditworthiness might be under pressure. There was no prospect for general access of borrowers to national capital markets.

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2. There was a great deal of confusion about the US interest in the committee, the nature of US objectives and the reason for the high level at which these issues had been taken up. Regarding the principal US changes, the preliminary view of the UK was that they prefer a narrow construction of the functions of the committee, i.e. one that started with aid matters and with issues clearly within the purview of the Bank and Fund. They support the idea of a review after two years although there is some concern that this might interfere with obtaining a sufficiently senior individual as Executive Secretary. They would support an independent executive secretary but that and most of the staff work could and should be done by the Fund and Bank.

3. In my second meeting, with Mr. Derek Mitchell, Treasury, he expressed essentially the same views. Earlier in the meetings of the C-20 he had warned about establishing a committee whose purposes were unclear and whose organizational structure was confused. All of his warnings were coming true.

He had never obtained a clear response from the US on the purpose of the committee or what specifically was to be discussed regarding the most seriously affected countries. He found the high level approach on this issue inexplicable and thought it generated negative reactions everywhere. He did not believe that this committee could be utilized to discuss the oil pricing problem or the recycling problem because there were not a sufficient number of OPEC representatives. Moreover, it was unlikely that the OPEC countries would be prepared to discuss either issue in this kind of forum. It was not clear how the US would initiate a discussion of additional assistance measures for the most seriously affected countries since they seemed to have no additional resources available.

cc: Messrs. Robert S. McNamara
J. Burke Knapp
I.P.M. Cargill
Sir Denis Rickett

ES:gss

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

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# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: September 9, 1974

FROM: Ernest Stern, Director, Development Policy

SUBJECT: G-24 Meetings



This is to inform you that we received an invitation to participate in the meetings of the G-24 on Saturday, September 28. The Deputies will meet at 9.00 a.m. and a Ministerial meeting is scheduled for 5.00 p.m. The proposed Agenda is:

1. Joint Bank/Fund Committee and problems related thereto.

2. Status of Monetary reform measures for immediate implementation and draft changes in the Fund Articles.

3. Review of the World Economic situation.

4. Other matters.

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cc: Mr. Cargill
Sir Denis Rickett
Mr. Damry

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